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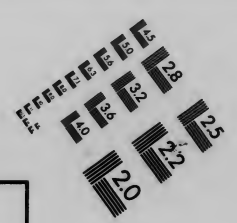


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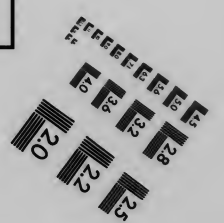
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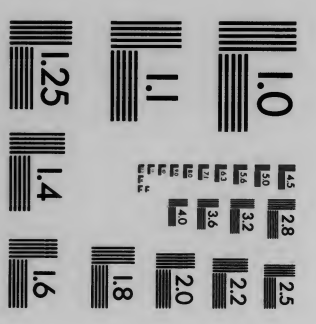
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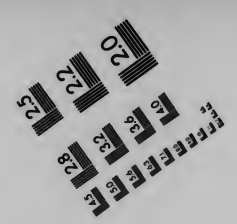
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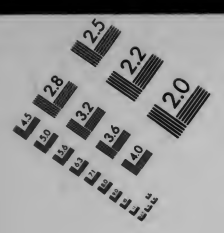
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THE ADMINISTRATIVE AND GENERAL
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By
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THE ADMINISTRATIVE AND GENERAL EXPENSES OF THE
ELECTRIC UTILITY OPERATING COMPANY

An Analysis of the Behavior of the Administrative
and General Expenses, and Their Relation
to Public Rate Control

By

Luther Huyett Bender

Submitted in partial fulfillment of the requirements for
the degree of Doctor of Philosophy, under the
Joint Committee on Graduate Instruction,
Columbia University

1939

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PREFACE

This study was under the sponsorship of Professor Walter Rautenstrauch of Columbia University, who took an active interest in it as it progressed. Professors James C. Bonbright and Robert T. Livingston jointly helped in its development and final completion. My thanks are due also to Professor F. C. Mills for his suggestions after a reading of the manuscript. The study by Dr. Irvin Bussing "Public Utility Regulation and the So-Called Sliding Scale" was of great importance in shaping the course of my research. Several specialists have kindly discussed with me problems raised in the course of the study and have helped me in obtaining access to material. For these services I am especially indebted to Mr. Riley E. Elgen, Chairman of the Public Utilities Commission of the District of Columbia, Mr. George Wilson, an accountant with the Public Utilities Commission of the District of Columbia, Mr. Guy K. Bard, formerly a member of the Pennsylvania Public Utility Commission, Mr. Frank B. Morgal, Director of the Bureau of Accounts, Rates and Statistics of the Pennsylvania Public Utility Commission, Mr. James I. Metcalf, consulting engineer to the New York State Power Authority, and Mr. Frank A. Newton of the Commonwealth and Southern Corporation.

A number of people have helped me in various other ways for which I also express my sincere thanks.

Wernersville, Pa.
August, 1939.

Luther H. Bender

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INTRODUCTION

The individual business units within a given industry, while differing greatly in detail, tend to possess common cost characteristics. These typical patterns are shaped by the economic characteristics of the industry, which are in turn determined on the one hand by the technical character of the productive plant and on the other hand by the nature of the market served.

One of the most important characteristics of the electric utility, the subject of this study, is that a large proportion of its costs are independent of the amount of current used; in other words, are overhead costs. It is well known that, as regards the amount of investment required for each dollar of revenue, the utilities in general are unique, and that the electric utilities possess this characteristic to a marked degree. Further, in part because of this relatively high investment as compared to the revenue and also in part because of the fact that practically all operating expenses, excluding perhaps production, are largely independent of variation of consumption, it costs nearly as much to serve the small domestic consumer as the large. This characteristic, setting the electric utility apart from the usual run of economic enterprise, has not been sufficiently understood.

This study directs attention to one category of these fixed costs: the administrative and general expenses. This is a group of operating expenses that is most subject to variation in the relative amount spent, but is also most

subject to possible control by management.

The administrative and general expenses constitute from 5 to 15 per cent of the total gross revenue. It is this large variation that gives a peculiar interest to this group of costs. Moreover, since the electric utilities are subject to public regulation, the money they are allowed to earn is subject to a prior deduction of operating expenses. Thus it is possible for a company to inflate these expenses and so reduce the amount available for the return on the investment.

While many of the other costs can be allocated to specific causal factors with at least a reasonable degree of accuracy, the administrative and general expenses in most cases defy an engineering approach to allocation. For example:

Who can say to what specific account the president's salary should be charged in a cost accounting? Perhaps in one year the general manager has spent a large proportion of his time negotiating an important power contract. Shall his time, by a time sheet and work order, be assigned to that specific job?¹

Because of the impossibility of accurate allocation and the tendency of any "overhead account," for which no one person is administratively responsible, to become an uncontrolled account, there is a marked degree of variation among different companies. Even companies which are physically similar, or similarly managed, differ greatly.

The general purpose of this study is to analyze these accounts. It is not believed that a statistical study will yield the information desired, because this group of expenses is subject to many causes of variation that are individual and perhaps unique. To obtain the desired information the different accounts must be analyzed individually rather than statistically. In consequence, the method used in this presentation is the case method.

1. Statement by Professor Robert T. Livingston of Columbia University to the author, in the Spring of 1939.

The present study has as a background certain previous studies that deal with the amount spent for administrative and general expenses mainly in connection with the cost of serving the average domestic consumer. In each of these studies specific allowances had to be made for the administrative and general expenses. Messrs. Marshall and Snow, in their study of the Detroit Edison Company (1931), allowed 13½ per cent of all other expenses.² Colonel Kelly (1931), in his Niagara Hudson study, used \$3.28 annually per average domestic consumer.³ The Federal Power Commission (1936) used actual expenses recorded on the books of the companies being analyzed.⁴

The New York Power Authority in their study, issued November 10, 1934, approached the problem from another point of view.⁵ They considered this expense an overhead, as in competitive business, where by successful companies it is kept within surprisingly close limits, generally as a function of gross sales. They eliminated certain items, specifically insurance, rentals and retirements. These they treated as fixed charges rather than as operating expenses. A number of companies were then analyzed on the basis of gross revenue, and it was found that two accounts varied widely. They were "other miscellaneous general expenses," and "relief and welfare work."

When these two accounts were eliminated, the percentages of the remainder of general expenses to gross revenues

2. A.C. Marshall and H.A. Snow, "Distribution Costs - Residence Service," National Electric Light Association Proceedings, LXXVIII (1931), p.106
3. William Kelly, "Economics of Power Industry," N.E.L.A. Bulletin (April, 1931), pp.247-255, 280.
4. Cost of Distribution of Electricity (Federal Power Commission, National Power Survey Power Series No. 3, (1936).)
5. Report on the Cost of Electric Distribution (N.Y. State Publications No. 102 (1934); N.Y. Power Authority, Fourth Annual Report).

tended towards relative uniformity. After further study of New York companies, their conclusions were as follows:

"From this analysis it is apparent that, when arbitrary expenditures are so far as possible standardized, the percentage of necessary general expenses to revenues approaches a constant level at from 5 to 6 per cent. The percentage is to all intents the same for the Consolidated Gas Company serving a predominance of small customers at relatively high rates or for the Buffalo and Tonawanda companies with a number of very large industrial consumers and relatively low rates."⁶

The specific purpose of the present study is to compare the operations of the Potomac Electric Power Company operating in Washington, D.C., with a number of other companies to determine the relation of its administrative and general expenses to its outstanding success in reducing domestic rates from among the highest in the country to among the lowest in an eight-year period, 1925 to 1932, Table 1. Here are shown the prices paid for 25, 100, and 250 KWH's and the relative standing of the Potomac Electric Power Company with all cities of 100,000 or more population for similar amounts of current. This study will determine the relative amount this company has spent for administrative

6. Report on the Cost of Electric Distribution, op. cit., p. 241, Italics mine.

7. Buffalo General Electric Co., N.Y.
Niagara Electric Service Corp., N.Y.
Tonawanda Power Co., N.Y.
Niagara, Lockport & Ontario Power Co., N.Y.
Niagara Falls Power Co., N.Y.
Consolidated Edison Co., N.Y.
New York & Queens Electric Light Co., N.Y.
New York State Gas & Electric Corp., N.Y.
Patchogue Electric Light Co., N.Y.
Jamestown Municipal Plant, N.Y.
Orange & Rockland Electric Co., N.Y.
Solar Electric Co., Pa.

and general expenses and the relative amount of money used to reduce rates. These amounts will then be compared with what other companies spent for administrative and general expenses. In addition, the sources and effects of variations in these expenses of Potomac Electric Power Company will be compared with those of other companies utilizing relatively larger sums for this group of expenses in order to show the importance in public rate control procedure of such large variations.

TABLE 1

TRENDS IN DOMESTIC RATES OF POTOMAC ELECTRIC POWER COMPANY, WASHINGTON, D. C., COMPARED WITH ALL CITIES OF 100,000 OR MORE POPULATION RANKED FROM LOW TO HIGH ACCORDING TO THE AMOUNTS OF THEIR TYPICAL BILLS FOR 25, 100, AND 250 KILOWATT HOURS IN EACH YEAR FROM 1924 TO 1939 *

KWH	Price For			Ranking		
	25	100	250	25	100	250
Oct. 1, 1924	\$ 2.50	\$ 9.24	\$ 11.03	87	86	47
Oct. 1, 1925	1.98	7.02	10.16	42	66	44
Oct. 1, 1926	1.75	6.60	8.90	33	65	30
Oct. 1, 1927	1.56	5.97	8.64	22	62	25
Oct. 1, 1928	1.48	5.68	8.52	21	63	28
Oct. 1, 1929	1.30	5.20	8.27	11	57	29
Oct. 1, 1930	1.18	4.70	7.03	4	45	14
Oct. 1, 1931	1.05	4.20	5.99	1	27	3
Oct. 1, 1932	.98	3.85	5.67	1	19	2
Oct. 1, 1933	.98	3.75	5.67	2	18	3
Oct. 1, 1934	.98	3.60	5.67	2	19	4
Jan. 1, 1935	.98	3.60	5.67	2	19	4
Jan. 1, 1936	.98	3.50	5.67	2	16	4
Jan. 1, 1937	.98	3.40	5.67	2	15	6
Jan. 1, 1938	.98	3.10	5.65	2	12	7
Feb. 1, 1939**	.98	2.71	5.01	7	4	5

* Trends in Residential Rates From 1924 to 1936 (Federal Power Commission, (1937).) pp.29 and 39.
Typical Net Monthly Bills for Electric Service, Cities of 50,000 Population or More January 1, 1938 and 1939 (Federal Power Commission, (1939)) pp.4-8.

** The District of Columbia Utility Commission revises rates as of Feb. 1 of each year. This is the relative standing as of that date.

Furthermore this company is not subject to the ordinary form of public utility regulation, and is the only electric company in this country operating on the form (described later) of sliding scale, or profit-sharing, basis with its consumers. Its rates are modified each year according to its profits. This arrangement is commonly known as the Washington Plan.

As a prelude to this study, consideration is first given to public rate control procedure with special reference to the electric utility operating company. This introduction will present the question of the control of operating expenses, particularly the administrative and general expenses, in its proper setting.

The framework for analyzing the behavior of these expense items will then be considered. The administrative and general expense items are reported to the public utility commissions by the operating companies according to a uniform classification of accounts. These classifications define the different sub-groups of accounts. In this study certain accounts are considered more important than others and are thus classified to suit the purposes of the study. This classification consists in dividing the so-called important accounts into five groups which are used as a basis of comparison throughout.

The administrative and general expenses of Pepco⁸ are then analyzed in terms of the frame-work previously set-up. The method of utility regulation employed by the District of Columbia Utility Commission in dealing with this company is next discussed in detail, and the importance of controlling expenses in connection with this plan is then shown. The method of analyzing these expenses is to express them in terms of cents per dollar of gross revenue for the period 1925-1934 as a base and then to study variations in these amounts for that period, as well as the

8. In the industry the Potomac Electric Power Company is known as Pepco and will be referred to in that manner throughout the study.

period since. This is the total period of operation under the Sliding Scale, or Washington Plan. The effect on the average domestic consumer of these expenses and their relation to the amount of money used to reduce rates is then determined.

The next chapter compares the variations in the amount spent for the administrative and general expenses by Pepco with those of a number of other companies in the State of New York under a different form of regulation. Here consideration is given to the behavior of this group of expenses, not only at a particular time, but also over the entire period 1930-1937. In making this comparison most attention is given to those companies of the Niagara Hudson Group, which operate near and around Niagara Falls, New York.

In the next chapter, the main causes of variation in these expenses are discussed in detail. Here the detailed expenses of a particular company are analyzed to point out specifically how the accounts are built up and the causes for the large variation noted in this group of accounts. The company used for this purpose, the Solar Electric Company, operating in Pennsylvania, is a member of one of the holding company groups analyzed in the general comparison, the Associated Gas and Electric System. The procedure used is to take the analysis of this group of expenses by the Pennsylvania Public Utility Commission for one year, 1936, and to compare the relative expenses with those of the other companies analyzed. The factors responsible for the variations are discussed in detail.

Reasonable allowances for the administrative and general expenses are then determined on the basis of the preceding analysis by the Pennsylvania Commission. The disallowed expenses and the money spent in fighting rate cuts are then compared with the money Pepco spent for the administrative and general expenses and its contribution for reducing rates. The return to the investors and stockholders is also compared along with the above factors.

CHAPTER I
PUBLIC RATE CONTROL

1. Purpose of Rate Control

Certain types of businesses in the United States have been declared by the United States Supreme Court to be "affected with a public interest." This usually means that free competition does not prevail and that a form of monopoly exists in varying degrees. Where monopoly exists, the "willing buyer and willing seller" cannot meet as equals. These utility monopolies naturally possess, like all monopolies, a monopoly gain. This gain is nothing which the utilities have produced, but rather it is something which the public has contributed. Ordinarily, this condition results in the government's setting up a commission to regulate this business and to see that the public interest is properly protected. This type of procedure has been on the increase in the electric utility field, particularly since 1913.

"Public Control of utility corporations has two broad groups of objectives. The first is the more important. It is designed to secure for the public as consumers, the maximum extent, quality, and benefits of service consistent with a fair classification of nondiscriminatory rates that will afford a reasonable profit to the utility organization. The second group of objectives relates to taxes, taking property by eminent domain, property-holding rights, rights to conduct business, registration, issuance of securities

PUBLIC RATE CONTROL

and other useful provisions of State laws, most of which are applicable generally to corporations, domestic or foreign."¹

The present study is mainly directed towards the first named purpose, usually called rate control, a process by which the price of electricity to the ultimate consumer is largely determined. It consists in the determination of three distinct financial categories:

1. Operating Expenses
2. Taxes
3. Return on Capital

Operating expenses should include reasonable and necessary cost of labor and material used in operating and maintaining utility properties. They are shown currently by accounting records kept under public supervision. Taxes are imposed by public authorities and are merely collected by a utility for the benefit of the government. Return on capital is the amount to which the owners or investors are entitled for having devoted capital to public service. These three quantities are important because they compose the total revenues which a utility must recover through rates which it may properly receive for services furnished to the public.

2. Operating Expenses

In competitive businesses efforts are usually made to keep overhead costs as low as possible. This usually is necessary in order to continue in business. However, in the case of a regulated monopoly, competitive forces are usually not very strong, and the electric consumer must depend on the judgment of the management of the company or on effective public control for a fair level of rates. In the field of operating expenses, however, uniformity and

1. Utility Corporations (Summary Report of the Federal Trade Commission, No. 72-A (1935), p.871.)

consistency in regulation has apparently failed for two main reasons: First, courts have uniformly held that a commission may not substitute its judgment for that of the management since the former have no financial responsibility. Second, the industry itself has not developed the type of functional cost analysis which results in standard cost units such as have been developed in the industrial field, and thus the commissions have no basis for comparison.²

What is said concerning the operating expenses is particularly true of the group of expenses known as the "administrative and general expenses," called "general and miscellaneous expenses" in the old uniform classification of accounts. According to some authorities in this field this group of expenses should be relatively stable in relation to the gross revenue of the company.³ Since there are no definite standards to judge the adequacy of these expenses, there is a tendency to overload them. This contributes to the difficulty of commissions or courts proving that any expense is too large. Excessive expenses of certain types can be easily verified, but the above are not subject to easy objective testing by commissions, except in very extreme cases. The management also has a self-interest in its own salary level.

With relation to the other expenses it is common knowledge in the industry that about 85 per cent of the total cost of serving the average domestic consumer is also a relatively fixed amount which does not vary greatly with the quantity of energy consumed. That is, if consumer "A" used twice as much current as consumer "B", his proper

2. Statement by Morris L. Cooke, A.S.M.E. Transactions Vol. 58, (1936), p. 277.

3. New York Power Authority, loc. cit.

share of overhead expenses would not be proportional to his consumption of current, but only slightly greater. So a study of the administrative and general expenses in relation to the average domestic consumer will be typical of a large proportion of the total cost of serving this consumer.

The utility commissions, in their work of rate control, must consider operating expenses together with taxes and return on capital. This is commonly accomplished through what is called a rate-of-return study. In such a study the commission first determines what are fair allowances for operating expenses and taxes. Then an examination is made of the money invested in the properties devoted to public service and to their reproduction cost new, less depreciation. Calculations are also made to determine the difference between the total gross revenues, less proper operating expenses and taxes. This amount is assumed to be available for the return on the capital invested.

The history of rate control shows that heretofore most of the time of the commissions has been devoted to determine the fair value upon which the return is computed. This was due mainly to the prevailing court decisions following *Smyth v. Ames*, 169 U.S. 466 (1898) which stated that consideration must be given to the original cost of the properties, reproduction cost new, and a number of other factors. More recently court decisions have tended to throw greater emphasis on original cost than on replacement cost.

CHAPTER II

THE ADMINISTRATIVE AND GENERAL EXPENSE ITEMS

1. The Uniform Classification of Accounts

The importance of operating expenses under public rate control has been reviewed. Consideration will now be given to those groups of costs that compose the operating expenses. The operating expense items are first recorded by the companies as they occur in the daily operation of the business. This procedure is facilitated by reporting them according to a uniform classification of accounts.¹ The purpose of this procedure is to have a uniform definition of each group of costs so that the regulatory bodies may know what is meant by the cost figures. This approach to uniformity has made steady progress, so that by 1937 most regulatory bodies have adopted the same uniform classification of accounts. Previously the classification varied somewhat in different states. The companies compared in this study operate in New York, Pennsylvania, and the District of Columbia and used somewhat different classifications. However, these classifications differed little in their set-up and description of accounts. The chief difference will be considered later. Since January 1, 1937, the same uniform classification of accounts has been adopted by these commissions.²

1. See Appendix A, Uniform Classification of Accounts for Electrical Utilities (National Association of Railway and Utilities Commissioners, 1922). p. 113
2. See Appendix A, Uniform System of Accounts Prescribed for Public Utilities and Licenses (Federal Power Commission, 1936), p. 121

2. Component Parts of Operating Expenses

A study of the component parts of the operating expenses will show the important part played by the administrative and general expenses in determining the total. According to the old uniform classification of accounts adopted in 1924 by the District of Columbia and New York Commissions, the main components of expense were as follows:

Production Expenses	- cost of production, purchase or exchange of energy
1. Operation	
2. Maintenance	
Transmission Expense	- cost of high tension transfer of electricity
1. Operation	
2. Maintenance	
Distribution Expense	- cost of distributing electricity locally
1. Operation	
2. Maintenance	
Utilization Expense	- cost of street and commercial sign lighting, etc.
1. Operation	
2. Maintenance	
Commercial Expense	- cost of meter reading, billing, collecting, etc.
New Business Expense	- cost of promoting the use of electricity, etc.
General and Miscellaneous Expense	- cost of overhead departments, such as general officers, accounting, treasury, etc.

In the new classification of accounts the "general and miscellaneous expenses" are called administrative and general expenses. The new terminology will be used in this study as its name indicates more clearly the character of this group of expenses.

3. The Administrative and General Expenses - Component Parts

The administrative and general expense group of accounts, the focus of this study, is composed of the following groups of accounts according to the old uniform classification of accounts:

GENERAL AND MISCELLANEOUS EXPENSES

<u>Account Number</u>	<u>Account Name</u>
781.1	General Office Salaries
781.11	Administrative Salaries
781.12	Other General Office Salaries
781.21	General Office Supplies and Expenses
781.22	General Stationery and Printing
781.23	Maintenance of General Structures
781.24	Operation of Communication System
781.25	Maintenance of Communication System
781.26	Law Expenses
781.27	Insurance
781.28	Store Expenses
781.29	Transportation Expense
781.30	Undistributed Adjustments
781.31	Rentals
781.32	Other Miscellaneous General Expenses
782	Retirement Expense
783	Injuries and Damages
783.1	Claim Department Expenses
783.2	Medical Expenses
783.3	Injuries to Employees
783.4	Other Personal Injuries and Property Damage
783.5	Miscellaneous Accident Expenses
784.	Regulatory Commission Expenses
785.	Relief and Welfare
785.1	Employees' Welfare Department
785.2	Pensions
786	Franchise Requirements
787	Amortization of Franchises
788	Electric Expenses Transferred - Cr.
789	Joint Operating Expenses - Cr.
790	Duplicate Miscellaneous Charges - Cr.

The first groups of accounts cover the executive or administrative functions, the accounting, the treasury, and the law departments, and other general office salaries and expenses. These items represent costs, that are essential to operation, but cannot be directly allotted to any particular class of consumers. The other expenses of interest in this study consist of two accounts of major interest, the "regulatory commission expenses" and "relief and welfare work," together with a number of minor accounts which have been combined into one group as follows:

Minor General Expenses:

- | | |
|------------------------------|---|
| 1. Injuries and Damages | 5. Franchise Requirements |
| 2. Store Expense | 6. Amortization of Franchises |
| 3. Transportation Expenses | 7. Maintenance of General Structures |
| 4. Undistributed Adjustments | 8. Operation and Maintenance of Communication Systems |

A number of accounts were not included because, while perhaps important, they are not pertinent to the purpose of the study. The following excluded accounts are not subject to the same causes of variation as are those included.

1. Insurance
2. Rentals
3. Retirement Expense
4. Joint Operating Expense - Credit
5. Electric Expense Transferred - Credit
6. Duplicate Miscellaneous Charges - Credit

The foregoing grouping of accounts was made to show what was important and what was unimportant for the purpose of this study. For purposes of analysis these important accounts will be divided into groups that will be used throughout. The first group will consist of the following regular accounts: "general office salaries," "general office supplies and expenses," "general stationery and printing," and "other miscellaneous general expenses." This group includes all the large expense items, such as the administrative and general office salaries and expenses of the accounting, and treasury departments. These are the overhead departments of the business. "Other miscellaneous general expenses" are a catch-all account for items that cannot be definitely placed under any other account. A major item often included here is the management fees. The second group covers "law expenses;" the third, "relief and welfare work;" the fourth, "regulatory commission expenses;" and the fifth, "minor general expenses."

Grouping of Accounts for Comparison:

- Group I General Office Salaries
 General Office Supplies and Expenses
 General Stationery and Printing
 Other Miscellaneous General Expenses
- Group II Law Expenses
- Group III Relief and Welfare Work
- Group IV Regulatory Commission Expense
- Group V Minor General Expenses

The detailed definitions of accounts used by the District of Columbia, New York, and Pennsylvania are shown in Appendix A, page 113. Two of the classifications of accounts were effective until January 1, 1937, and the other since that time. The major difference between the three classifications insofar as the administrative and general expenses are concerned is that the new one breaks down the account, "other miscellaneous general expenses," so that two new accounts were created, "management and supervision fees and expenses," and "special services." This is a step to bring to light a type of charge that has been created since the older classification of accounts was instituted.

So far a framework has been set up in which the administrative and general expense items can now be analyzed. The next chapter will consider the amount and variation of this group of expenses of Pepco.

CHAPTER III

THE ADMINISTRATIVE AND GENERAL EXPENSES,
POTOMAC ELECTRIC POWER COMPANY¹

1. Conflict: The Company vs. the Commission, 1914
to December 31, 1924

The Washington Plan of rate regulation has significance to the administrative and general expenses, because under this plan law expenses and regulatory commission expenses generally caused by fighting rate cuts are reduced to a minimum. As far as these expenses are concerned this is an ideal type of rate regulation. Under this plan there also is an incentive to cut all operating expenses and keep them at a minimum figure. This is due to the profit sharing phase by which the company shares in the money available over the allowable rate of return. The super-normal earnings of a given year are retained entirely by stockholders that year, but prices are reduced sufficiently to prevent a recrudescence of specified proportions of the excess the following year. Since this company is subject to a type of regulation differing in important respects from the prevailing type, a brief statement about the history and nature of this regulation may be in order.

Congress placed its first and only limitation on the price of electricity which companies in the District of Columbia may charge in an act which became law March 3, 1899. The maximum rate established at this time was 10

1. Some of the material in this chapter is taken from the study of Dr. Irvin Bussing, Public Utility Regulation and the So-Called Sliding Scale. (New York: Columbia University Press, 1936), Chapter 8.

cents per Kwh plus a penalty of one cent per kwh if bills were not paid within ten days.² This price remained in force without change until August 1, 1917; it was nominally in force from that time until December 31, 1924, when it was reduced by order of the Commission.

No important legislation affecting public utilities of the District of Columbia appears to have been enacted between 1899 and March 4, 1913, when the Act creating the Public Utilities Commission of the District of Columbia was approved.

This law provided that the fairness of a rate can be determined "only . . . by an ascertainment of the just amount or base . . . upon which a return is to be allowed to the utility."³ The commission organized a valuation bureau, and on June 1, 1914, the actual work of determining the fair value of the property was started. Hearings were held and continued until January 31, 1917. The testimony consisted of 6,221 pages of typewritten matter and over fifty exhibits. The so-called historical value of the property was thus determined. The determination of the reproduction value was then started, but here differences arose between the commission and the company. This matter the company took to the Supreme Court of the District.

Meanwhile, the commission proceeded with hearings on the rate of return to be allowed on the property value as determined and on prices to be charged. A 7 per cent return was deemed reasonable.

The period until April 9, 1923, was characterized by the fact that very little of a positive character had been accomplished. The valuation case was in litigation, and

2. 30 Stat. 1052. The maximum price charged by the companies prior to this date was 15 cents per kwh.

3. Formal Case No. 47, Order No. 208. Valuation of the Potomac Electric Power Company, p. 6.

the commission's rate order had been enjoined by the court. This was followed by still more litigation.

As a result of the chaos left by the foregoing situation, the commission began to seek some new basis of agreement. Informal conferences were held with the power company during the remainder of the year 1923 and all of the year 1924. Finally a new approach to the problem was found by a clause in the commission act providing for a sliding scale of rates. The threat of public ownership was also brought into the picture at this point. After several more months of discussion an agreement was reached, and on December 20, 1924, matters had been settled to the general satisfaction of both parties.

Since that time Pepco has been operating under an automatic form of rate regulation, instead of the more usual type.

2. History Under the Sliding Scale, 1925-1937

The more recent background of this company will be considered in detail in order to show why this company was selected for examination. A previous study on its operations was made by Dr. Irvin Bussing, Public Utility Regulation and the So-Called Sliding Scale (1936), which brought the possibilities of its use for this purpose to the present author. Dr. Bussing in his study stated that he did not think that the success of the Pepco was due to the location of its operations, but that it was a typical company and did not possess advantages that the average other company did not enjoy.⁴

Pepco, operating in and around Washington, D. C., is affiliated with the North American Company, a holding company group. Since 1925 this operating company has been under a type of utility regulation known as the sliding scale,

4. Bussing, op. cit., p. 149

an arrangement to share profits with its consumers. At the start of the application of this method of rate control its domestic rates were among the highest in the country, whereas after eight years of its operation they were among the lowest. Thus this study concerns a period of the company's history during which it was trying an experimental method of rate control.

The Utility Commission of the District of Columbia, which regulates this company, is unique in that it is subject to the United States Congress and as a result has been under close scrutiny ever since its inception. It is also unique in that it has one utility of each type of regulate, for example: baggage transfer, electric, gas, street railway, buses, taxicabs. Pepco is subject to closer attention by the District of Columbia Commission than practically any other electric company in the country. The company submits to the Commission monthly reports in great detail, which make possible a check upon all types of expenditures and gives reliable data covering the costs of the various items which make up the total of operating expenses. The Commission also audits the books of the company annually, going into detail in those operating expense accounts subject to variation. Most electric utility companies are not required to furnish as much information to a regulatory body, and their books are not usually audited in detail by a regulatory commission, unless a thorough rate investigation is in progress. Until recently such investigations were rare in some states.

With this background, the administrative and general expenses will now be analyzed in their relation to the sliding scale. This can be done only for the period since 1925, the period under the sliding scale operation, since before that time the same uniform classification of accounts was not in use.

3. The Administrative and General Expenses, 1925-1934

The trend of the administrative and general expenses of this company during the entire period 1925-1937 is shown in Chart 1 below, which is based on Tables 30 and 43. For the purpose of this analysis, attention will first be given to the period 1925-1934 with later comparisons to the 1935-1937 period. Table 2 shows the variation of the administrative and general expenses over the ten-year period, 1925-1934.⁵

TABLE 2

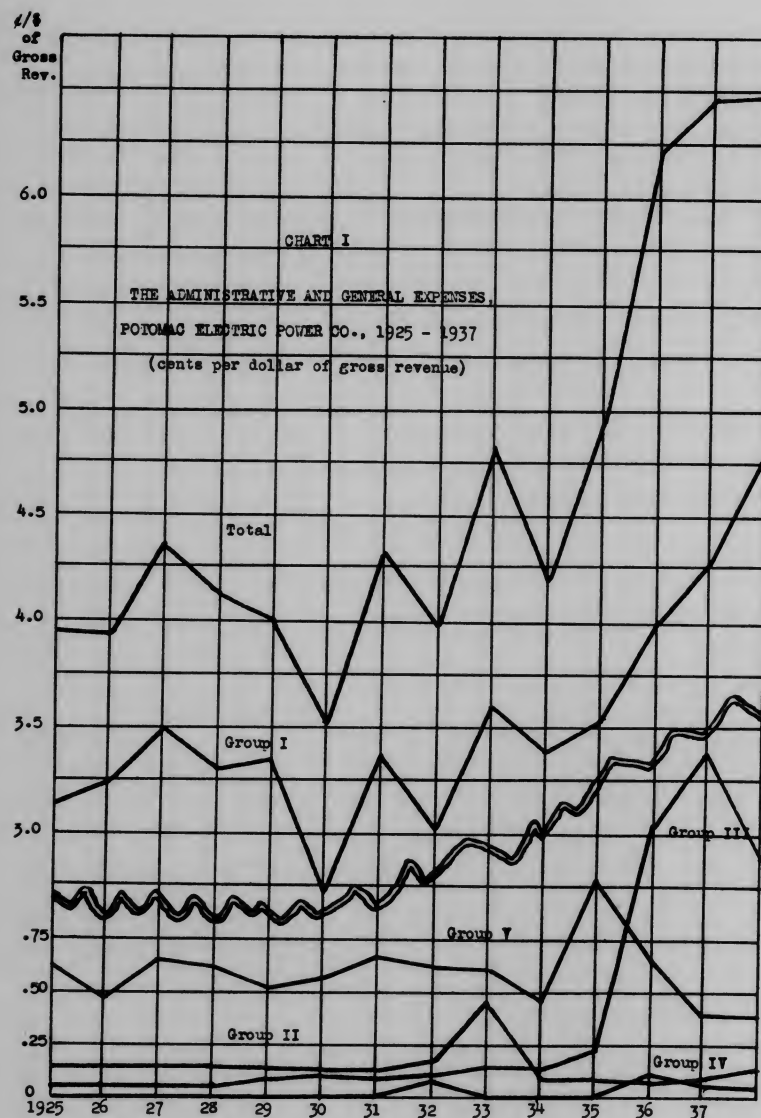
THE ADMINISTRATIVE AND GENERAL EXPENSES, POTOMAC ELECTRIC POWER COMPANY, 1925-1934*

(Total expenses and in terms of cents per dollar of gross revenue)

Year	Admin. and Gen'l. Expenses	Group I Gen. Off. Sal., Exp. and Other Misc. Exp.	Grp. II Law Expense	Grp. III Relief and Welfare Works	Grp. IV Reg. Comm. Ex-pense	Grp. V Minor General Ex-penses
1925	\$277,404	\$218,767	\$10,724	\$2,902	. . . .	\$45,011
1926	307,875	254,659	11,530	3,919	. . . .	37,767
1927	368,407	296,513	12,473	3,307	. . . .	56,114
1928	385,689	307,878	14,271	5,018	. . . .	58,622
1929	401,509	332,010	11,969	5,630	. . . .	51,900
Five Year Average	4.08¢	3.30¢	.14¢	.05¢	. . . .	.59¢
1930	\$369,527	\$285,287	\$12,773	\$10,174	\$10	\$61,283
1931	462,851	364,327	13,755	9,862	411	74,496
1932	433,458	333,914	16,333	9,227	7,400	66,584
1933	531,810	397,879	50,923	15,063	595	67,350
1934	493,928	413,892	13,645	14,676	36	51,679
Five Year Average	4.12¢	3.24¢	.20¢	.10¢	. . . .	.58¢

* The expenses in this study are expressed in terms of the gross revenue because statistically they are related as closely to this factor as to any other; second, overhead costs in many studies are so expressed, and third, it makes comparison with other items such as money used to reduce rates, more easily understood.

5. See Statistical Section, Tables 30-56 for the corresponding values of other companies used in this study.



First are shown the total dollar amounts for the 1925-1929 period and then the five-year averages of these amounts expressed in terms of cents per dollar of gross revenue.

It is noted that the company averaged 4.07¢ per dollar of gross revenue over this five-year period for these expenses. The Group I expenses constitute three-fourths of the total and the amounts for "law expense" and "relief and welfare work" are relatively small.

The lower part of Table 2 shows the same analysis for the 1930-1934 period. Here the company averaged 4.12¢ per dollar of gross revenue for this five-year period. The component averages for the various sub-groups of accounts is approximately the same as for the 1924-1929 period.

As shown by later comparisons with other companies (page 38) the per cent variation over the 1930-1934 period from +14 per cent to -17 per cent from the five-year average has been relatively small. The components, however, have shown larger variations. The general office salaries, a part of the Group I expenses, have shown the largest variation.⁶

The importance under the sliding-scale method of utility regulation of large variations from the above five-year average will now be given consideration. It was stated that the total revenue which a utility must recover through rates is equal to the sum of three items: operating expenses, taxes, and return on capital. The experience of this company during the period has been that the net return

6. See Statistical Section, Tables 30 and 43

The greater variation of the components as compared to the total is partly due to the fact that where it is possible items of Group I and Group V expenses are charged to more definite accounts such as II, III and IV. That is, if a general officer does work for the legal department, his work is so charged.

to capital has kept on increasing and that as a result the company could reduce its rates to consumers considerably. The Washington Plan contains a method of sharing profits and operates as follows:

Under the Washington Plan of Sliding-Scale a basic or normal rate of return on the rate base is established; super-normal earnings of a given year are retained entirely by stockholders that year, but prices are reduced sufficiently to prevent a recrudescence of specified proportions of the excess the following year. By a series of successive price reductions the entire super-normal earnings of any one year tend to be absorbed in time. Conversely, if earnings on the rate base consistently fall below the normal rate of return the commission is under obligation to increase prices.

Table 3 shows the results of operations under the Washington Plan. In the first column is shown the rate base. On this amount the company is allowed a certain rate of return above taxes and operating expenses. From 1925 to 1930 this rate was $7\frac{1}{2}$ per cent; from 1931 to 1934, 7 per cent; from 1935 to 1937, $6\frac{1}{2}$ per cent; and since 1938, 6 per cent. The return over this amount is divided between the stockholders and amounts available for future consumer rate reductions, as described above.⁸ This excess has varied from \$147,501 to \$860,000 over the period.

7 Bussing, op. cit., p. 12

8 Excess Earnings - When in excess of $7\frac{1}{2}$ % in any one year one-half of such excess to be used in a reduction of rates for the following year. As approved by the Supreme Court of the District of Columbia in a decree handed down in December 1924.

Subsequent modifications:

1931 Rate of return reduced to 7 per cent.

Division of excess earnings:

When more than 7 per cent and not more than $8\frac{1}{2}$ per cent equals $\frac{1}{2}$.

When more than $8\frac{1}{2}$ per cent and not more than 9 per cent equals 60 per cent of excess over $8\frac{1}{2}$ per cent.

When more than 9 per cent equals 75 per cent of excess over 9 per cent.

(Continued on Page 26)

TABLE 3
MONEY AVAILABLE FOR RATE REDUCTIONS UNDER
THE POTOMAC ELECTRIC POWER COMPANY
SLIDING SCALE, 1925-1938*

Year	Rate Base (Weighted)	Rate of Return	Return on Rate Base	Return over $7\frac{1}{2}$ %	Return over 7%	Return over $6\frac{1}{2}$ %	Return over 6%	Available for Rate Reductions
1925	\$33,608,189	9.59%	\$3,223,391	702,777	---	---	---	\$351,388
1926	36,131,724	9.72	3,510,467	800,588	---	---	---	400,294
1927	40,699,952	9.72	3,750,997	698,000	---	---	---	349,250
1928	43,883,122	10.28	4,512,975	1,220,990	---	---	---	610,495
1929	47,970,898	10.31	4,946,655	1,348,837	---	---	---	674,419
1930	49,372,904	10.70	5,286,592	1,580,666	---	---	---	790,333
1931	55,125,620	9.56	5,268,276	1,133,854	\$1,409,741	---	---	860,000
1932	58,728,032	8.81	5,171,304	---	1,060,542	---	---	562,000
1933	61,759,448	8.23	5,080,999	---	1,757,838	---	---	378,919
1934	66,073,182	7.45	4,920,124	---	295,001	---	---	147,501
1935	67,407,554	7.42	5,002,212	---	---	\$ 620,721	---	310,755
1936	70,136,260	7.91	5,545,009	---	---	986,182	---	504,021
1937	73,792,842	7.95	5,864,029	---	---	1,087,494	---	769,634
1938	77,198,839	7.01	5,416,652	---	---	---	\$788,171	394,085

*Data from Bussing, op. cit., p. 158, and from the public records of the District of Columbia Utility Commission.

Comparing the significance of variations in the total administrative and general expenses, it is noted that those expenses have normally run from about \$300,000 to \$500,000, or 4.1¢ per dollar of gross revenue.

Thus an increase of these expenses to 8¢ per dollar of gross revenue would involve a total increase of \$400,000 in operating expenses. It would therefore seem that fluctuations in administrative and general expenses, even though they seem relatively insignificant, may have a decided bearing on excess profits available for future rate reductions and hence on the trend of the company's rates over a period of time. Under this arrangement there is thus an incentive to keep expenses low as the company and consumer both have a chance to share in the resulting profits.

4. The Administrative and General Expenses Since 1934

The expenses since 1934 will now be compared with the five-year average of the preceding years.

Footnote No. 8 Continued from Page 24

1935 Rate of return reduced to $6\frac{1}{2}$ per cent.

Division of excess earnings:

When more than $6\frac{1}{2}$ per cent and not more than $7\frac{3}{4}$ per cent equals $\frac{1}{4}$

When more than $7\frac{3}{4}$ per cent and not more than $8\frac{1}{2}$ per cent equals 60 per cent of excess over $7\frac{3}{4}$ per cent.

When more than $8\frac{1}{2}$ per cent equals 75 per cent of excess over $8\frac{1}{2}$ per cent.

1938 Rate of return reduced to 6 per cent. Etc.

TABLE 4
THE ADMINISTRATIVE AND GENERAL EXPENSES,
POTOMAC ELECTRIC POWER CO., 1935-1938*
(Total expenses and cents per dollar of gross revenue)

Year	Admin. and Gen. Expenses	Group I Gen. off. Sal. Exp. and Other Gen. Exp.	Grp.II Law Expense	Group III Relief and Welfare Work	Grp.IV Reg. Comm. Expense	Grp.V Minor General Expense
1935	\$649,884	\$468,739	\$12,342	\$ 30,940	\$ 690	\$137,175
1936	879,459	581,457	13,430	181,380	14,628	88,564
1937	941,415	630,640	14,724	237,793	10,338	47,920
1938	973,950	715,770	20,285	174,775	14,697	48,423
1935	4.93¢	3.56¢	.09¢	.24¢	. . . .	1.04¢
1936	6.23	4.12	.09	1.29	.10¢	.63
1937	6.41	4.30	.10	1.61	.07	.33
1938	6.47	4.76	.13	1.16	.10	.32
5 year average. (1930-34)	4.12¢	3.24¢	.20¢	.10¢	. . . .	.58¢

* See Statistical Section, Tables 30 and 43

Table 4 shows that the total administrative and general expenses have increased from 4.12¢ to 6.41¢, an increase of over 50 per cent, by 1937, from the five-year average, 1930-1934. It is noted that this increase is due mainly to the increases in the Group I and III expenses, the other groups having remained approximately the same. The reasons for these increases will now be considered.

5. Sources of Increased Expenses

During the 1930-1934 period it was noted that the amount spent for general salaries (Statistical Section, Table 43) increased considerably. The main sources of this sizeable increase are indicated by Table 5. Table 5 shows that the general office force increased from 29 employees in 1930 to 49 in 1932; for 1933 the number is shown as 95, which increased to 125 in 1935. Since 1933 a different method of

classifying office employees is used, so that it is difficult to state what the percentage increase amounts to.

TABLE 5
NUMBER OF GENERAL OFFICE EMPLOYEES,
POTOMAC ELECTRIC POWER COMPANY, 1930-1935*

Year or Average Wages	1930	Average Wages	1931	Average Wages	1932	Average Wages
Gen. Off.						
Bookkeepers	4	\$218.33	4	\$224.75	4	\$224.75
Clerks	16	116.20	18	117.02	21	114.46
Porters and Messengers	9	73.33	24	78.46	24	78.99
Total	29		46		49	
Year or Average Wages	1933	Average Wages	1934	Average Wages	1935	Average Wages
Gen. Off.						
Supervisory Force	7	\$323.06	7	\$335.71	6	\$365.56
Bookkeepers	2	142.50	3	141.66	3	153.33
Clerks	57	118.41	65	117.13	77	122.06
Other Gen. Off. Employees	29	155.52	34	142.62	39	132.05
Total	95		109		125	

* Data from the annual reports of Pepco to the District of Columbia Utility Commission.

In 1931 an addition of 16 people in the general office increased the amount spent for salaries. In 1933 there was another increase, with increases each succeeding year. Most of these increases were in the accounting department and were caused by the following new factors:⁹

9. According to B. M. Bachman, Chief Accountant of the District of Columbia Utility Commission.

1. Introduction of the 8-hour day.
 2. The new classification of accounts, particularly with reference to fixed capital, or Plant Accounting.
 3. Increased business
- Another item in Group I (Statistical Section, Table 30) expenses that showed an increase was account 793, "general office supplies and expense," for the year 1937. The \$184,458.75 in this account was composed of the following items:

Labor	\$ 95,864.29
Material	36,057.32
Transmissions and Expenses	6,342.63
Miscellaneous	46,194.51
Total	184,458.75

The reason for the increase in this item is that the total monthly bills for telephone service at certain buildings were charged to this account.

The commission thought that the classification of accounts would provide for a distribution of such charges to the various departments such as transmission, distribution, customers, accounting, and collecting sales promotion and general office. This is an example of errors in charging.

The increase in the "relief and welfare work" account, Group III, in 1936 was due to the adoption of a new plan for per diem employees which became effective on June 1, 1935. The employees receive no compensation for the first week of absence, payments starting on the eighth day. The plan for the monthly employees went into effect January 1, 1936. In the case of these employees, the payments start immediately, the first week's allowance being charged to the account to which their salary would ordinarily be charged, and then to the "relief and welfare" account.

Effective January 1, 1936, a general retirement plan was put into effect whereby employees at their option may purchase annuities with the Equitable Life Assurance Society of the United States. Employees contribute approximately 4 per cent of their monthly salary from the effective date of the plan until retirement at the age of sixty

five. The company contributes an amount sufficient to guarantee and annuity of 2 per cent of yearly salary for each year's service, varying an increasing with the age of the employee. Employees' contributions as well as the company's are refunded when an employee leaves the service.

The large increases in the Group IV, "regulatory commission expenses," for 1936 and 1937 were due to special investigation work in connection with the company's plant accounts carried on by the District of Columbia Utility Commission, the cost of which was assessed to Pepco.

6. Disallowed Expense Items

In public rate control procedure it is often the practice to disallow certain expenses which it appears are not directly for the consumer's benefit. These items are often management fees, charges from affiliated interests, and items among the "other miscellaneous general expenses." Analysis shows that this commission disallowed but two types of items since 1929. The one was for regulatory commission expense and the other was the \$15,000 donation to the Community Chest. The former item was disallowed because the company lost the rate case. Many commissions have a different type of problem to deal with and disallow quite a number of items in rate proceedings. In general, one can say in comparison with other companies, particularly Solar Electric Company, Chapter V, that this Commission has been very liberal in not disallowing more expense items. No doubt its procedure was the best, considering that the company readily gave information concerning the items in their accounts. Table 6 shows a breakdown of the "other miscellaneous general expenses" account, an account which often contains items of a character that are disallowed in rate proceedings. The \$15,000 donation to the Community Chest is the only disallowed item. In the discussion of the Solar Electric Company case in Chapter V it will be found that the Pennsylvania commission disallowed other items such as donations, etc. in their determination of a proper rate level.

TABLE 6
OTHER MISCELLANEOUS GENERAL EXPENSES,
POTOMAC ELECTRIC POWER COMPANY, 1935

Miscellaneous Donations	
Unions of American Hebrew Congregations	\$ 25.00
National Symphony Orchestra	100.00
National Radio Essay Contest "Home"	5.00
President's Cup Regatta Association	100.00
D.C. Commissioners Traffic Education Commission	50.00
Eastern Star Home - 10 old lamp posts, fixtures	49.90
BPO Elks Grand Lodge Convention - Colored	125.00
Special Service League of Montgomery City, Md.	500.00
Washington Board of Trade Tax Survey	375.00
Metropolitan Police Boys Club - 50 tickets to boxing matches	50.00
Community Chest	\$ 1,379.90
Shrine Convention	15,000.00
Shrine Decorations	2,568.23
	376.74
Association Dues	
Washington Board of Trade	\$ 12.00
U.S. Chamber of Commerce	500.00
Better Business Bureau	250.00
American Society of Testing Materials	30.00
Merchants and Manufacturers Associations	100.00
National Association of Manufacturers	100.00
Maryland Utilities Association	75.00
Associated Edison Ill. Companies	931.54
Junior Washington Board of Commerce - three employees	30.00
Bethesda Chamber of Commerce - 1 employee	3.00
Rockville Chamber of Commerce - 1 employee	5.00
Rotary Club - 1 employee	12.50
Controllers Institute of America	29.17
Greater National Capital Committee	\$ 2,078.21
Pay Roll	2,600.00
Miscellaneous Hearings	2,740.20
Banquets, etc.	62.91
Printing P. U. C. Report and envelopes	265.65
Periodicals	278.54
Auto Expense	329.50
Unmetered Current	6,017.35
Braddock Light and Power Co.	805.00
Bank Services	937.82
Executive Misc. Expenses - North American Co.	5,330.64
Executive Misc. Expenses - P.E.P. Co.	564.16
Appraisal of Land	1,644.17
Chesapeake and Potomac Telephone Co.	750.00
Fees and Expenses - Board of Trade	28,941.54
Xmas Presents	1,821.63
Employees Magazine Subscriptions	309.97
Xmas trees, etc.	610.76
Printing dividend checks and postage	71.77
1934 Convention	746.52
Audit	67.40
Securities and Exchange Commission Expenses	3,182.00
Miscellaneous	1,964.00
Unanalyzed Item	890.86
	12,000.00
Total	\$92,325.05*

* See Statistical Section, Table 3D, year 1935, "other miscellaneous general expenses."

7. The Effect on the Average Domestic Consumer

The purpose of this section is to translate the variations in amounts spent for the administrative and general expenses into terms that will show their effect on the average domestic consumer. Perhaps this procedure will throw more light on the relation of this group of expenses to the success of Pepco.

The same procedure will be used here in apportioning the share of these expenses to the average domestic consumer as that used in comparing the amounts spent for these expenses. This will be done on the assumption that the proportion of these expenses to be borne by the average domestic consumer bears a direct relation to his contribution to the revenue of the company. Thus, these expenses will again be allocated on the basis of the revenue.

Table 7 shows in detail this procedure as determined for Pepco. On the first line is shown the average revenue received per kwh of domestic consumption. The second line shows his annual average consumption and the third his average annual bill. It will be noted that the product of the first two factors has increased only slightly over the period. This appears to be the case for most companies that increase their average domestic consumption per consumer, and it is important since it illustrates how the amount of current received by the average domestic consumer more than doubled for approximately the same price.

The first line, second part of the table, shows that portion of gross revenue in cents per dollar, that has been spent by the company to cover the administration and general expenses. Multiplying this average domestic consumer's bill by this figure gives the dollars per average domestic consumer's bill for these expenses. Dividing this product by the average domestic consumption per consumer gives the effect in terms of cents per kilowatt hour. It will be seen that this contribution per kilowatt-hour for these expenses has decreased from 0.26¢ to a low of 0.13¢

TABLE 7
THE CONTRIBUTION OF THE AVERAGE DOMESTIC CONSUMER TO THE
ADMINISTRATIVE AND GENERAL EXPENSES, POTOMAC ELECTRIC
POWER COMPANY, 1926-1938. *

	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Revenue per K.W.H.	6.7¢	6.1¢	5.8¢	5.2¢	4.7¢	4.2¢	3.8¢	3.2¢	3.36¢	3.35¢	3.14¢	2.95¢	2.75¢
K.W.H. per Av. Dom. Con.	456	489	524	578	636	714	798	868	959	974	1027	1104	1120
Av. Yrly Bill in \$	30.68	29.70	30.12	29.93	29.78	29.78	30.30	31.69	32.00	32.32	32.25	32.57	30.61
Admin. & Gen. Exp. ¢ per \$ of Gr. Rev.	3.92	4.35	4.13	4.04	3.52	4.29	3.97	4.82	4.08	4.93	6.23	6.41	6.39
Admin. & Gen. Exp. \$ per Av. Dom. Con.'s Bill	1.20	1.29	1.24	1.21	1.11	1.28	1.20	1.52	1.30	1.60	2.01	2.40	1.96
Admin. & Gen. Exp. ¢ per K.W.H.	.26	.26	.24	.21	.17	.18	.15	.17	.13	.16	.19	.19	.18

(*) Source: Annual Reports to the District of Columbia Utility Commission.

over an eight year period. This shows that for one segment of the large fixed costs classification the contribution of the average domestic consumer has remained the same total amount but that the management was still able to more than double the amount of current received at the same total cost of approximately \$30.

It was previously noted that, beginning in 1935, new factors became effective which increased these expenses. They affected Group I expenses through increased personnel to comply with the new classification of accounts as affected by the fixed capital records; Group III expenses through more liberal sickness and death benefits; and Group IV through investigations carried on by the utility commission the costs of which were assessed against the company. All of these increases were legitimate but were due to factors that were not operative in the previous period. As a result, the burden on the average domestic consumer rose again to 0.19 cents per kilowatt-hour by 1936.

8. The Relation of the Stockholder's Contribution Toward Rate Reduction to the Gross Revenue

The money used by Pepco to reduce rates since it has been operating under the sliding scale will now be considered in the same manner as was money spent for the administrative and general expense.

Table 8 is a compilation of the amount of money available for rate reductions in the case of Pepco. This is the amount that was actually used to cut rates; it does not include the amount over the allowable return that was given to the stockholders. In the first column are shown the amounts available for rate reductions, and in the second column, the above amounts expressed in terms of cents per dollar of gross revenue. It will be seen that in the period during which the company made its large rate reductions,

this value varied from 4.1¢ in 1927 to 8¢ in 1931. The average for the period is 6¢ per dollar of gross revenue. It appears that Pepco has contributed during this period more money to reduce rates than it has spent for the administrative and general expenses. Of this 6¢, approximately one-third, or 2¢, was used to reduce the domestic rates.¹⁰ When this amount is expressed in terms of KWH (the attained average domestic consumption, 1027 KWH) it equals .06¢ per KWH. In order to maintain its standing among the large cities having low rates, Pepco has contributed 3¢ per dollar of gross revenue during the period 1933-1938. Of this amount 1¢ per dollar of gross revenue was to reduce domestic rates.

TABLE 8
MONEY AVAILABLE FOR RATE REDUCTIONS
POTOMAC ELECTRIC POWER COMPANY, 1925-1938*

Year	Money Available for Rate Reductions	Cents per Dollar of Gross Revenue
1925	\$351,388.	5.0¢
1926	400,294.	5.1
1927	349,250.	4.1
1928	610,495.	6.5
1929	674,419.	6.8
1930	790,333.	7.5
1931	860,000.	8.0
1932	562,000.	5.2
1933	378,919.	3.4¢
1934	147,501.	1.2
1935	310,755.	2.3
1936	504,021.	3.5
1937	769,634.	5.2
1938	394,085.	2.6

* See Table 3

10. The divisible excess income has been distributed in the form of price reductions with approval of the Commission in the following proportions:

	Allotment	% of Gross Revenue Contributed 1925-1934
Residential	47.43	34.61
Apartment and Office Building	4.00	3.79
Small Commercial	33.60	37.62
Large Commercial	11.26	16.75
Street Lights	3.70	7.23
	100.00	100.00

9. Resume

From 1914 to December 31, 1925, Pepco had among the highest rates in the country and was in constant conflict with the utility commission.

During the ten-year period, 1925-1934, under the sliding scale (an automatic form of rate regulation), the company spent 4.10¢ per dollar of gross revenue for the administrative and general expenses while it was reducing its domestic rates from among the highest to among the lowest in the country. For the period 1930-1934, the average was 4.12¢ per dollar of gross revenue. The variation from this five-year average was +14 and -17 per cent.

The salary component of the Group I expenses increased because of forces not controllable by the company. A number of expense items out of line with those for other years were due to errors in charging or factors for which the company was not responsible. Since 1935 the salary accounts of Group I "relief and welfare work," Group III and "regulatory commission expenses," Group IV, have shown increases which have increased the 1930-1934 average of 4.12¢ to 6.41¢ per dollar of gross revenue. The increase in the "relief and welfare work" account was due to a change in management policy and the increase in the "regulatory commission expenses" was due to assessments made by the District of Columbia Utility Commission.

The Utility Commission disallowed but two types of items for rate making purposes, regulatory commission expenses and community chest donations.

The contribution of the average domestic consumer of Pepco to the administrative and general expenses during the period 1925 to 1932, when it was making its large rate reductions has been cut in half, from 0.25 cents to 0.13cents per kwh.

The company contributed 6 cents per dollar of gross revenue during the 1925 to 1932 period to reduce the rates, 2 cents of which was for the domestic consumer. In terms of the attained average domestic consumption, this amounts to 0.06¢ per kwh for the average domestic consumer. During the period 1933 to 1938

the company contributed 3¢ per dollar of gross revenue to maintain its position among the largest cities in this country having low rates. Of this amount 1¢ was for the domestic class of business.

The cause and effect relationship between administrative and general expenses and gross revenue.

Given the administration and general expenses G_1 , the gross revenue R_1 , and the resulting ratio r_1 . If K is a growth factor the expenses under normal conditions in the future would be, $G_2 = G_1 \times K$ and the gross revenue, $R_2 = R_1 \times K$. We would then have:

$$\frac{G_2}{R_2} = r_2 = r_1$$

Suppose there was a rate cut, according as the elasticity of demand for power varies, we would have:

$$G_3 = G_2 \times K \quad R_3 = R_2 \times E \quad E = 1$$

$$r_3 = \frac{G_3}{R_3} = r_2$$

Any one of the three possibilities may be realized over a period of time.

Suppose, however, as under the Washington Plan where super normal earnings of a given year are retained by stockholders and prices are reduced sufficiently to prevent a recrudescence of specified proportions of the excess the following year, a company can forecast the effect of a rate cut on gross revenue. Under this plan, with successive cuts of gross revenue, the amount is kept within a given range. Also on the other hand since the administrative and general expenses usually are subject to control by the management, their amount can also be kept within close limits. Therefore the resulting ratio is also subject to control. This result will be evident in the case of Pepco, where the ratio has varied within rather close limits.

CHAPTER IV
A COMPARISON OF THE ADMINISTRATIVE AND GENERAL
EXPENSES OF PEPCO WITH OTHER COMPANIES

1. Selection of Companies

Consideration having been given to the administrative and general expenses by Pepco under the sliding scale, these amounts will now be compared with the similar expenses of a number of companies operating in the State of New York. The purpose of this procedure will be to compare the relative amounts spent for this group of expenses by other companies in order to determine the relationship of these expenses to the success of Pepco. The companies used in this comparison were selected after an analysis had been made of the administrative and general expenses of all the large operating companies in the State of New York.¹

These companies have been chosen on the following basis: First, all companies were excluded that had large credit item accounts, for example: "duplicate miscellaneous charges," "joint operating expenses," and "electric expenses transferred." This was done because under the prevailing uniform classification of accounts one could not tell what individual accounts the credit applied to. As a result, these credit items would reduce the amounts directly charged and would give an unfair comparison. The

1. New York companies were selected for this comparison first, because they have been under progressive regulation for a long period of time, and second, because they represent operations under different types of management.

companies were then analyzed according to holding company groups, and it was found that certain cost characteristics were typical of certain groups. Therefore, to cut down the number of companies, the following procedure was used. As a typical example of the method used in apportioning the administrative and general expenses between the operating companies of a holding company group, the Buffalo, Niagara and Eastern Group was used (5 companies); as an example of a group that has holding company management fees, the Associated Gas and Electric System (2 companies); as an example of a group that has spent large amounts for regulatory commission expenses, the Consolidated Edison Group (2 companies). An outstanding municipal plant, Jamestown, and an independent operating company, the Orange and Rockland Electric Company were also chosen. In the case of the Associated Gas and Electric and the Consolidated Edison groups, only two companies were used for each, as it is believed that both companies are typical of the group. The amounts spent for the total administrative and general expenses will now be compared.

2. Comparison of the Total Administrative
and General Expenses

(Variation all companies, 1.88¢ to 19.15¢ per dollar of gross revenue per year.)

The same procedure in comparing costs will be employed as was used in the case of Pepco. The five-year average, 1930-1934, depression years, will be used as a base in comparing variations. The later period 1935-1937 will also be analyzed to determine whether there were increases or decreases. First the 1930-1934 five-year averages for the above-named groups will be compared with those of Pepco.

TABLE 9
COMPARISON OF THE ADMINISTRATIVE AND GENERAL
EXPENSES BY HOLDING COMPANY GROUPS AND
INDIVIDUAL COMPANIES (1930-1934)*

(cents per dollar of gross revenue)

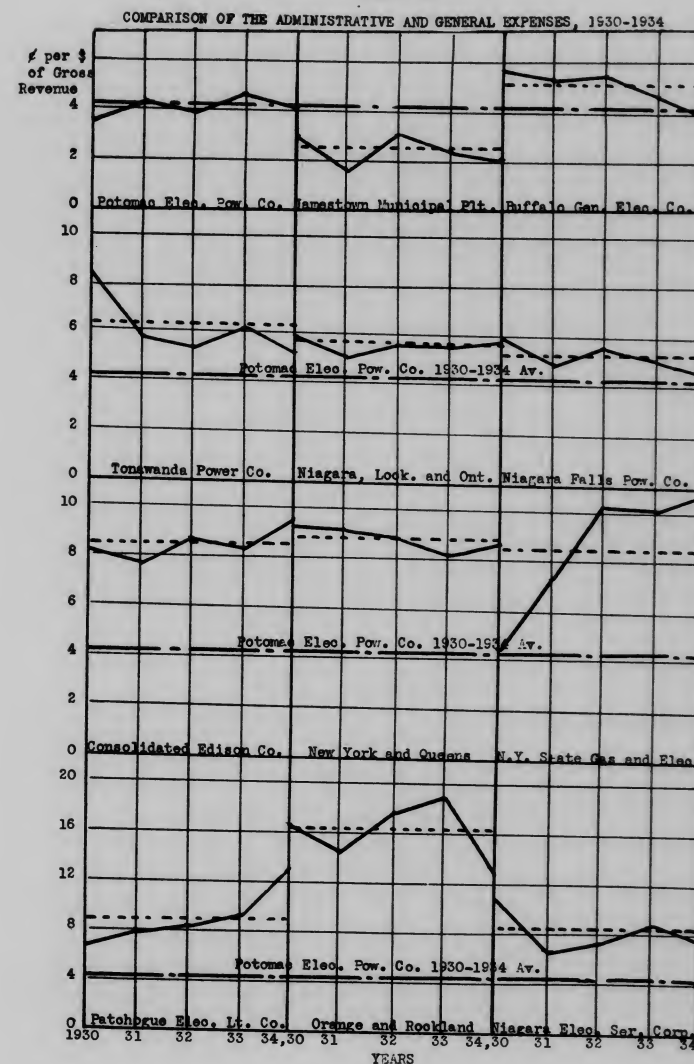
Potomac Electric Power Co.	4.12
Buffalo, Niagara & Eastern Group (5 Cos.)	6.03
Consolidated Edison Group (2 Cos.)	8.85
Associated Gas and Elec. Group (2 Cos.)	8.86
Jamestown Municipal Plant	2.37
Orange and Rockland Electric Co.	16.20

*See the Statistical Section, Tables 30-55, for details of the various companies included in the study and for the components responsible for the above variations.

From the table it appears that Pepco has spent less for this group of expenses than almost any other company. However, in dealing with five-year averages, it is important to consider the trend. Chart II shows the values for the 1930-1934 period for all the companies. The dash line indicates the five-year average for each individual company. The long dash line is the five-year average for Pepco. Most companies have higher expenses than Pepco, especially the two Associated Gas & Electric Company subsidiaries, the New York State Gas & Electric Co. and the Patchogue Electric Light Co.

It would be interesting to be able to discuss the variations for all holding company groups and individual companies, but for purposes of simplicity the accounts of the Buffalo, Niagara, and Eastern Group will be mainly stressed. This will be done because: first, this group represents different types of operation in adjacent territory; second, more information is available concerning their operation than for any other group; and third, it is believed that the behavior of the accounts of this group is similar to that of other companies.

CHART II



The operating companies of the Buffalo, Niagara and Eastern Group have the following five-year average for the administrative and general expenses.

TABLE 10

COMPARISON OF THE ADMINISTRATIVE AND GENERAL EXPENSES, BUFFALO, NIAGARA AND EASTERN GROUP, 1930-1934 *

(Cents per Dollar of Gross Revenue)

Name of Company	Type of Operation	
Potomac Electric Power Co.	Prod. & Retail Distrib.	4.12¢
Buffalo General Elec. Co.	Prod. & Retail Distrib.	5.05
Niagara Elec. Serv. Corp.	Retail Distrib. only	8.25
Tonawanda Power Co.	Retail Distrib. only	6.23
Niagara, Lockport & Ontario Power Company	Prod. & Retail Distrib.	5.47
Niagara Falls Power Co.	Prod. & Wholesale Distrib.	5.13
Buffalo, Niagara and Eastern Average		6.03¢

* See Statistical Section, Tables 30-35 and 43-48

Large variations are noted even within the same holding company group. The groups of accounts comprising the administrative and general expenses will now be compared for the above companies, since by that method their behavior can be better understood.

3. Comparison of Group I Expenses

(Variation All Companies 1.02¢ to 11.70¢ per Dollar of Gross Revenue Per Year)

First, consideration will be given to the Group I expenses. These Group I expenses are the largest in amount and are also the most important. The five-year averages 1930-1934 and values for the years following are shown:

TABLE II

COMPARISON, GROUP I, GENERAL OFFICE SALARIES, GENERAL OFFICE SUPPLIES AND EXPENSES, Etc. AND OTHER MISCELLANEOUS GENERAL EXPENSES, 1930-1937 *

(Cents per Dollar of Gross Revenue)

Year	1930-34	1935	1936	1937
Potomac Electric Power Co.	3.24¢	3.56¢	4.12¢	4.30¢
Buffalo General Elec. Co. **	3.82¢	3.47¢	3.00¢	-
Niagara Elec. Service Corp.***	6.24	4.60	3.60	-
Tonawanda Power Co. ****	5.22	3.96	3.27	-
Niagara, Lockport & Ontario Power Co.	4.15	4.17	3.43	5.15¢
Niagara Falls Power Company	4.02	3.76	4.05	3.80
Buffalo, Niagara & Eastern Average	4.69¢	3.99¢	3.47¢	4.47¢
Associated Gas & Electric Group (2 Cos.)	6.99¢	9.65¢	10.25¢	8.90¢
Consolidated Edison Group (2 Cos.)	6.21	5.70	5.66	7.12
Jamestown Municipal Plant	1.24¢	1.55¢	2.26¢	1.26¢
Orange & Rockland Electric Co.	10.42	9.50	11.50	11.60

* See Statistical Section, Tables 30-55.

*** These companies lose their identity as of 3/1/37

This group of expenses, because it is composed of a number of accounts and because any one of the component parts varies, is subject to great variations. Reference to the Statistical Section will show which account is responsible for the variations. In this discussion we are interested only in how Pepco compares with other companies, so that the detailed reasons for variation will not be discussed.

It is noted that the variation of 3.24 to 4.30¢ for Pepco is among the lowest. None of the other companies increase in the same manner, although most of them show increases. Management fees, other affiliated charges, and the method of apportioning joint expenses are the main causes of variation in this group of expenses, as the

following discussion shows.² It is noted that Pepco has the lowest expense except for the Jamestown Municipal Plant.

Utility operating companies employ either of two main methods in attending to their problems of general management. They can employ a staff and attend to it themselves or employ an outside group which is paid through a management fee. It is this fact which helps to cause such large variations in this group of accounts. Reference to the Statistical Section, Tables 43-55 will show that those companies that employ an outside group have a much larger "other miscellaneous general expense" account, notably the Associated Gas and Electric Group and the Niagara Hudson Group for 1930. This is the account that the management fees are usually charged to.

During the years 1927-1929 the Buffalo, Niagara and Eastern Power Company, the holding company for the Niagara Hudson Group, made a flat charge of 5 per cent of its gross revenue to each company. This charge covered many different kinds of services. Considerable profit was obtained from this arrangement.³ In 1930 this arrangement was discontinued, and instead salaries of certain officers and employees of each operating company were paid by the holding company. Each operating company was again charged with a proportion equal to the relation that its gross revenue bore to the total revenue of the group. This was the practice during 1930 and 1931.

Since this charge covered the payment for a number of different services, it had to be apportioned among various

2. The Securities & Exchange Commission under Section 13, Service, Sales & Construction Contracts of the "Public Utility Act of 1935, Title I" is at the time of writing beginning an active study in this field.

3. Utility Corporations (Federal Trade Commission), No. 56, p. 315.

accounts by the operating company. The method employed by the Buffalo, Niagara and Eastern Group is shown in Appendix B, p. 130. Reference to this Appendix will show that the method of allocation is rather arbitrary, and different results would be obtained by other methods. Other holding company groups follow a somewhat similar procedure. Part of the management cost is apportioned to the expense account of the various departments. Therefore, to make this comparison more complete, the departments' superintendents costs are also expressed in terms of cents per dollar of gross revenue and given consideration.⁴ It is noted that the per cent of revenue spent by the Niagara Electric Service Corporation and the Tonawanda Power Company is higher than that of other companies in the group.⁵ Pepco does not have any management fees to pay. Reference to Statistical

4. Statistical Section, Table 56. This appears to have very little effect on the administrative and general expenses. It has been found that those companies that have large administrative and general expenses also have large superintendents' accounts and usually have some type of management fee.

5. The effect of local differences on the variation of administrative and general expense items.

Logically it would appear that these expenses should vary according to local conditions. However, actually the largest normal items in general expenses are for the salaries and expenses of the accounting department. The size of the accounting department does not vary directly with the size of the company, the main difference being that in a large company the figures dealt with are larger and there are more items. Other expense items that may also be large are "relief and welfare", and "regulatory commission expenses". Both are dependent largely on the policy of the individual management, and not directly on differences in local conditions. Thus if a company sees fit to have more liberal pension and relief plans, that decision is determined by the management's desire to advance the general welfare of its employees and is not dependent primarily on local factors. The amount spent for regulatory commission expenses varies directly with the type of relationship existing between the company and the regulatory body. This is generally dependent more on what the management considers a proper rate level, etc., than on the individual local differences in territory. (Continued on Page 47)

Section, Table 41, shows that the Orange and Rockland Electric Company average is high because of the large officers' salaries.

4. Comparison of Group II Expenses

(Variations all companies - 0-1.40¢ per dollar of gross per year)

Table 12 shows that Pepco has the lowest average of all companies throughout the entire period. No doubt the sliding scale method has some bearing on this point. The large item of law expenses is often retainer fees, which vary considerably, and which may be paid even if no service is rendered. Thus it is very hard to generalize on this group of expenses, although usually they will be large if the company is fighting rate cases. The Associated Gas and Electric System, for example, fights almost every decision affecting it. The Niagara Electric Service Corporation seems to be out of line with the rest of the Buffalo, Niagara and Eastern group. The attitude of the public regulatory body may also affect this account.

TABLE 12
COMPARISON, GROUP II, LAW EXPENSES, 1930-1937*
(Cents per Dollar of Gross Revenue)

Year	1930-34	1935	1936	1937
Potomac Electric Power Co.	.20¢	.09¢	.09¢	.10¢
Buffalo General Electric Co.**	.25¢	.29¢	.25¢	-
Niagara Electric Serv. Corp.***	.66	.93	.50	-
Tonawanda Power Company****	.12	.25	.34	-
Niagara, Lockport & Ontario Power Co.	.33	.50	.26	.49¢
Niagara Falls Power Company	.28	.38	.43	.30
Average	.33¢	.47¢	.36¢	.39¢
Consolidated Edison Co. (2 Cos.)	.21¢	.25¢	.30¢	.34¢
Associated Gas & Electric System (2 Cos.)	.50	.51	1.65	.89
Jamestown Municipal Plant	.14¢	.01¢	.10¢	.12¢
Orange and Rockland Elec. Co.	.48	.37	.36	.31

* See Statistical Section, Tables 30-55.

** These companies lost their identity as of 3/1/37.

Since 1934 most of the companies spent at about the same rate, except that the Associated Gas & Electric Group and the Buffalo, Niagara and Eastern Group increased somewhat.

5. Comparison of Group III Expenses

(Variations all companies, 0-3.58¢ per dollar of gross revenue per year)

This group of expenses depends entirely on the view of management toward pensions, relief benefits, etc. It is noted that for the period up to 1935 Pepco had the lowest average except for the Jamestown Municipal Plant, but with the introduction of new plans this amount in 1937 increased to 1.6¢ per dollar of gross revenue. This increase is almost sufficient to take care of half the revenue the company used to reduce its domestic rates, while it was making its large rate reductions. The Consolidated Edison Company evidently has had such plans for a number of years. Since 1934 most companies continued at about the same rate, except that the Patchogue Electric Light Company, a member of the Associated Gas and Electric Group, jumped to over 3.5¢ per dollar of gross revenue, which no doubt was due to the introduction of some new welfare plan. A municipal plant usually has no such expenses.

Note 5 -(Continued from Page 45)

There are items of general expenses that are dependent on local conditions, such as franchises and transportation expenses. However, it is believed that local conditions are not a controlling factor in the large variations noted in this group of expenses.

Another factor causing large variations is the method of allocation of these expenses, as between companies, departments of a company, or accounts of an individual company. Often it is difficult to determine proper methods of allocation, that can be applied easily.

TABLE 13
COMPARISON, GROUP III, RELIEF AND WELFARE WORK EXPENSES,
1930 - 1937 *
(Cents per Dollar of Gross Revenue)

Year	1930-34	1935	1936	1937
Potomac Electric Power Co.	.10	.24	1.29	1.61
Buffalo General Elec. Co. **	.27	.59	.44	-
Niagara Electric Service Corp.***	.54	1.21	1.01	-
Tonawanda Power Co.****	.30	.37	.23	-
Niagara, Lockport & Ont. Pwr. Co.	.29	.51	.41	.38
Niagara Falls Power Company	.53	.86	.80	.64
Average	.39	.71	.58	.51
Consolidated Edison Co. (2 Cos.)	1.34	1.63	1.56	1.61
Associated Gas & Elec. System (2 Cos.)	.53	1.29	1.18	3.04
Jamestown Municipal Plant	-	-	-	.01
Orange & Rockland Electric Co.	.41	.39	.72	.44

* See Statistical Section, Tables 30-55.

*** These companies lost their identity as of 3/1/37.

6. Comparison of Group IV Expenses
(Variations, all companies 0-2.28¢ per dollar of gross revenue per year.)

Pepco, the Buffalo, Niagara and Eastern Group, and the Jamestown Municipal Plant spent practically nothing for this type of expense. The Associated Gas and Electric Group is noted for its practice of challenging decisions of the N.Y. Public Service Commission and has spent a large amount in this account. In 1936 and 1937 the amounts shown for Pepco were assessments made by the District of Columbia Commission for costs of investigation made by them, concerning the fixed capital records.

TABLE 14
COMPARISON, GROUP IV, REGULATORY COMMISSION EXPENSES,
1930-1937 *
(Cents per Dollar of Gross Revenue)

Year	1930-34	1935	1936	1937
Potomac Electric Power Co.	-	-	.10	.07
Buffalo, Niagara & Eastern Grp. (5 Cos.)	.02	.01	.07	.03
Consolidated Edison Group (2 Cos.)	.18	1.42	.46	.50
Associated Gas & Elec. Group (2 Cos.)	.01	2.01	.34	.49
Jamestown Municipal Plant	.14	-	-	-
Orange and Rockland Electric Co.	.02	-	-	1.81

* See Statistical Section, Tables 30-55.

Since 1934 the N.Y. Commission has been able to make investigations of utilities and assess the cost against the utility companies. After that date this account may include assessments by the Commission, which the company itself may not be responsible for.

7. Comparison of Group V Expenses

(Variations all companies, .09-6.73¢ per dollar of gross revenue per year.)

Pepco is again among the lowest in the relative amount spent by this group of companies. The per cent of revenue spent for this group of expenses is usually relatively small and thus does not have a great effect on the total administrative and general expenses. Reference to the Statistical Section will show the expense account items responsible for the above variations. This is one group of expenses that is not easily kept under control.

TABLE 15

COMPARISON, GROUP V, MINOR GENERAL EXPENSES, 1930-1934*
(Cents per Dollar of Gross Revenue)

Potomac Electric Power Company . . . . .	.58¢
Buffalo General Electric Company . . . . .	.71
Niagara Electric Service Co. . . . .	.71
Tonawanda Power Company . . . . .	.59
Niagara, Lockport & Ont. Power Corp. . . . .	.70
Niagara Falls Power Company. . . . .	.30
Consolidated Edison Group. (2 Cos.) . . . . .	.70
Associated Gas & Electric Group (2 Cos.) . . . . .	.48
Jamestown Municipal Plant . . . . .	.85
Orange and Rockland Electric Co.	4.87

* See Statistical Section, Tables 30-55

8. Resume

The amount spent by Pepco for the administrative and general expenses has been compared with that spent by a group of companies operating in New York State. Large variations in the amount spent by companies belonging to various holding company groups and even by companies within the same holding company group, have been noted. The 4.12¢ average figure of Pepco for the period 1925-1934 is the lowest of the averages except for the Jamestown Municipal Plant. The following table shows a comparison of the five-year average, 1930-1934, of Pepco with the corresponding highest and lowest averages for this sample of New York companies.

TABLE 16

COMPARISON OF ADMINISTRATIVE AND GENERAL EXPENSE
VARIATIONS, 1930-1937*
(Cents per Dollar of Gross Revenue)

	Potomac Electric Power Co. (1930-1934)	New York Group of Companies Five-Yr. Aver. Individual Yrs. 1930-1934 1930-1937			
		Highest	Lowest	Highest	Lowest
Admin. & Gen. Expenses	4.12¢	16.20¢	2.37¢	19.15¢	1.88¢
Gen. Ofc. Salaries, Etc.					
Group I	3.24	10.42	1.24	11.70	1.02
Law Expense, Group II	.20	.66	.12	1.40	-
Relief & Welfare Work					
Group III	.10	1.38	-	3.58	-
Reg. Comm. Exp., Group IV	-	.41	-	2.28	-
Minor Gen. Exp., Group V	.58	4.97	.29	6.73	.09

* See Statistical Section, Tables 30-55

The next chapter will show in detail the causes for some of these variations, which vary from 2.37¢ to 16.20¢ per dollar of gross revenue for the 1930-1934 period, and from 1.88¢ to 19.15¢ for the individual years during that period. This variation is greater than the amount Pepco spent (4.12¢) for the administrative and general expenses plus its contributions for the large rate reductions made during the period.

CHAPTER V
THE CAUSES OF ADMINISTRATIVE AND GENERAL EXPENSE
VARIATIONS AS SUGGESTED BY AN ANALYSIS OF THE
SOLAR ELECTRIC COMPANY

1. Purpose of Detailed Analysis

The preceding chapter has shown that wide variations exist in the relative amounts spent for the administrative and general expenses by companies operating under very much the same physical conditions, from the amount spent by Pepco under the sliding scale. No conclusion has been stated as to the reasonableness of such wide variations. The purpose of this chapter is to analyze in detail one company, the Solar Electric Company operating in Pennsylvania, a member of the Associated Gas and Electric System. As far as accounting procedure is concerned, what is true of this company is also probably true of the Associated companies compared in New York State. This chapter will present a complete analysis of the administrative and general expenses to show the causes for these variations.

Solar Electric Company has just passed through nine years of continuous litigation concerning the rate base, rate of return, etc.; in other words, a period comparing to that of Pepco before it adopted the sliding scale method of rate regulation. This company is by no means to be taken as a typical company; in fact, it is an outstanding example of a long drawn-out conflict between consumers and company. It was selected because as a result of the long controversy, there is a six-foot shelf of regular-sized public testimony

and exhibits available to give a good history of its operations and particularly an analysis of the behavior of the administrative and general expenses.

2. History of Solar Electric Company¹

Solar Electric Company serves Brookville and surrounding territory (population 6,000, located in northwestern Pennsylvania. Its early history is typical of thousands of small companies throughout the country. An energetic man of the community, a lawyer, started this plant on a shoestring in 1897, and by plowing back earnings built it into a money making business. It happened, however, that there were other enterprising business men in Brookville who were also interested in the electric company. They, moreover, were interested in the borough's owning and operating the plant; but they did not make very much progress, for in 1927 the company was sold to interests affiliated with the Associated Gas and Electric System. Considerable changes were then made. Heretofore the Solar Electric Company had attended to its own problems of management and had been a self-contained unit. Now, however, it came under the supervision of an adjacent larger electric operating company, the Pennsylvania Electric Company. This company in turn through a number of other companies was controlled by the Associated Gas and Electric Company, a holding company. This holding company has operating companies throughout the eastern part of the United States and believes in the policy of having a number of companies that furnish specialized service to its operating companies. As a result, each individual company is not a self-contained unit but is dependent on outside companies for specialized service. Such an arrangement results in a complicated accounting procedure, as this chapter

1. From hearings in the case of J.B. Stewart, et.al. v. Solar Electric Company, Complaint Docket No. 11404 (c. 8126) before the Pennsylvania Public Utility Commission.

will point out. The new ownership also involved the changing of some personnel and the loading on of management and of other affiliated charges from service companies in the Associated Gas and Electric System. These charges will be traced through an analysis of the amount spent for three groups of accounts of the administrative and general expenses.

Group I - General Office Salaries, General Office Supplies and Expenses, etc., and other Miscellaneous General Expenses

Group II - Law Expenses

Group IV - Regulatory Commission Expenses

Only these three groups will be considered, because prior to January 1, 1937, the uniform classification of accounts used by Pennsylvania companies was not exactly the same as those previously referred to,² and because previous study has shown that these three groups of accounts are subject to the greatest variation and thus are of the greatest interest.

The amounts spent for these three accounts will now be analyzed in terms of the gross revenue of the company for the period 1926-1934. This was a period during which the Solar Electric Company was under different managements at various times.

3. The Amount Spent for the Administrative and General Expenses, 1926-1934

In 1926, according to Table 17, most of this group of expenses was composed of salaries. However, beginning in 1927, the account, "other general expenses," began to increase, showing the inclusion of management fees. In 1928, "regulatory commission expenses" began, and further study will show that they have continued to date. The same is true for law expenses since 1929. The company is not entirely to blame for all of these increases, as persons living

2. See Appendix A, Part 3, for the uniform classification of accounts used by this company, Page 126.

in Brookville were partly responsible. This is particularly true since August 14, 1929, when a group of consumers, J.B. Stewart, et al, filed a complaint against the rates of Solar Electric Company. Hearings were held intermittently from 1929 to 1937, inclusive. In 1934 the old Public Service Commission also became a party to the controversy. All three parties gave extensive testimony, but the case never produced any results.

Finally in 1937 a new utility law was passed by the legislature of Pennsylvania creating a new public utility commission and give it the right to impose temporary rates at the beginning of a controversy. After the case is settled, final rates can then be imposed. If it is found that under the temporary rates the company did not make a fair return upon the value of its property, rates must be so adjusted that the company can recover its losses; while, if the temporary rates are found to be satisfactory or too high, the permanent rates must be made accordingly.

On June 8, 1937, the new Pennsylvania Public Utility Commission instituted an inquiry and investigation upon its own motion for the purpose of determining the fairness, reasonableness, and justness of the charges of the Solar Electric Company. On the basis of a preliminary study of the facts involved, temporary rates were imposed as of October 5, 1937, exacting a cut of \$11,300, or roughly 10 per cent of revenue. This was an application of the newly enacted temporary rate procedure to give relief to the consumers until the litigation was finally settled.

TABLE 17
THE ADMINISTRATIVE AND GENERAL EXPENSES,
SOLAR ELECTRIC CO. 1926-1934*
(Totals and Cents per Dollar of Gross Revenue)

Year	¢ Per Dollar of Gross Rev.	Total of Groups I, II & IV	Group I Expense Gen. Ofc. Sal. & Exp., etc.	Other General Expense	Group II Law Expense	Group V Reg. Comm. Expense
1926	7.50¢	\$ 4,223	\$ 3,301	\$ 922	\$ -	\$ -
1927	7.25	4,245	2,819	426	-	-
1928	11.13	7,242	3,209	2,778	-	1,255
1929	6.93	5,083	2,117	1,966	220	680
1930	20.92¢	\$16,978	\$ 3,699	\$13,937	\$ 52	\$ 290
1931	28.44	26,064	3,025	10,293	170	11,576
1932	25.79	22,666	2,850	10,312	212	9,392
1933	7.79	8,365	4,707	1,830	312	1,519
1934	15.25	13,390	1,040	3,498	932	7,919
Five Year Aver.	19.64¢	-	3.30¢	9.30¢	.44¢	6.94¢

* See Statistical Section, Tables 42, 43 and 55

The effect of these changes will now be traced by an analysis of the amount spent for the administrative and general expenses through 1934. Consideration will first be given to the comparison of the five-year average (1930-1934) expenses of Pepco with those of the Solar Electric Company. It will be seen from Table 17 that the total relative amount for Solar Electric is six times larger for this period than the relative amount spent by Pepco (3.44¢). The unusually large items are the "other general expense" portion of Group I, which includes management fees and other affiliated charges, and Group IV, "regulatory commission expenses." Further analyses will show the reasons for these large variations and what the Pennsylvania Public Utility Commission considers proper allowable expenses.

4. Causes of Expense Variations

One particular year, 1936, of the Solar Electric Company will be considered in detail and more attention given to the causes of variation as they affect the accounts of this particular company.

Table 18 shows these expenses for 1936 which total 19.9¢ per dollar of gross revenue. This is the largest per cent spent for these expenses of all companies analyzed. The table also shows the various accounts composing Groups I, II, and IV. This classification of accounts varies somewhat from that of Pepco, although they are comparable. It is noted that accounts 512 to 517, 520, and 541, "other general expenses," constitute Group I; account 536, "regulatory commission expense," is Group IV; and account 518, "general law expense," Group II. This table gives a breakdown of the \$19,142 according to the uniform classification of accounts, as reported by the Solar Electric Company in its annual report to the Pennsylvania Public Utility Commission. The general set-up is the same as that for the other companies compared, the nomenclature of the accounts being, however, somewhat different.

This \$19,142 of administrative and general expenses will now be broken into individual accounts and items - a different approach from that followed heretofore.

The method used here to indicate the breakdown of these accounts is taken from the order nisi of the Pennsylvania Public Utility Commission issued on July 5, 1938. Solar Electric Company filed its exceptions to this order on Sept. 1st and the Commission issued its final order Nov. 1, 1938. The final order is the same as the order nisi as far as this analysis is concerned. Solar Electric Company appealed the order to the Superior Court - April Term, 1939.

TABLE 18
THE ADMINISTRATIVE AND GENERAL EXPENSE ITEMS,
SOLAR ELECTRIC COMPANY, 1936*

Account	Amount	Cents per dollar of Gross Revenue	
512 Salaries of Gen. Officers	\$ 269		
513 Salaries of Gen. Ofc. Clerks	542		
514 Gen. Ofc. Stationery & Printing	53		
515 Other Gen. Ofc. Supplies	5		
516 General Officers' Expenses	12		Group I
517 General Ofc. Clerks Expenses	2		
520 Other General Ofc. Expenses	68		
Total	\$ 951	1.0¢	
541 Other General Expenses	5,769		
Total	\$ 6,720	6.0	
536 Regulatory Commission Exp.	12,241	12.7	Group IV
518 General Law Expenses	181	.2	Group II
	\$19,142	19.9¢	

* See Statistical Section, Tables 42 and 55.

In Table 19 appear the total operating expenses of Solar Electric Company for 1936. All expenses are shown in order to indicate later the effect of commission regulation on all expenses. The main interest here is in a breakdown of the administrative and general expenses as divided into two main groups, apportionments from Pennsylvania Electric Company and direct expenses of Solar Electric Company.

TABLE 19
TOTAL OPERATING EXPENSES, SOLAR ELECTRIC COMPANY, 1936 *

Item No.	
1	Generation by Gas Power \$ 4,119
2	Electricity Purchased 35,667
3	Distribution System Operating Expense 6,796
4	Utilization System Operating Expense 1,056
5	Commercial Department Operating Expense 6,688
6	New Business Department Operating Expense 2,059
7	Uncollectible Consumer Accounts 600
8	Other Insurance 513
9	Utility's Electricity Used in Operations 1,405R

(Table 19 Continued)

Administrative and General Expenses:

Apportionment from Pennsylvania Electric Company

10	512 Salaries of General Officers	\$269
11	513 Salaries of General Office Clerks	542
12	514 Gen. Office Stationery and Printing	52
13	515 Other Gen. Off. Supplies	5
14	516 General Officers' Exp. .	12
15	517 Gen. Off. Clerks' Exp. .	2
16	518 General Law Expenses . .	181
17	520 Other Gen. Off. Expenses	67
18	536 Public Service Comm. Exp.	1
19	537 Injuries and Damages . .	355
20	541 Other General Expenses .	905 \$2,391

Direct Expenses of Solar Electric Company:

21	Public Service Commission Expense	\$12,240
22	Gen. Off. Stationery & Printing	1
23	Other General Office Exp. .	1

Other General Expenses:

24	Management Fees	2,392
25	Advisory and Corp. Expense - Accrued:	
26	Corporate Records and Sec. Ass'ts.	\$ 165
27	Utility Accts. & Tax Consultants .	632
28	Utility Pur. & Supply Corp.	10
29	Haskins and Sells	250
30	E. J. Cheney	43
31	Corporate Records & Sec. Ass'ts. .	207
32	Ford, Bacon and Davis	1,099
33	Contributions, donations, flowers.	29
34	Miscellaneous	37
		\$17,106 \$19,497

Total Operating Expenses, less provision for depreciation and taxes \$75,590

"R" Denotes credits.

* Order nisi, Solar Electric Company by Pennsylvania Public Utility Commission, July 5, 1938, p.50. To make presentation clearer some of the items are arranged differently here, and all amounts are cut down to the nearest dollar.

An explanation will now be made as to the background for making the above division of administrative and general expenses. The Solar Electric Company is affiliated with the Pennsylvania Electric Company which in turn is affiliated with the Associated Gas and Electric System. As stated before, this system maintains a number of companies whose purpose is to furnish service to the individual operating companies. Some of these companies furnish services directly to Pennsylvania Electric Company, which in turn prorates part of the cost accumulated in a pool account to Solar Electric Company. Also, moneys spent for the upper holding companies of the system which are supposed to be for the common interest of all operating companies are placed in a pool account and prorated to the various operating companies. Then, also, some of these servicing companies do work directly for Solar Electric, and the company is charged directly for it.

The effect of public rate control procedure on the administrative and general expenses will now be considered, as by that means one can better understand the behavior of this group of expenses, and what are considered reasonable expense allowances. First consideration will be given to the pool expenses apportioned by Pennsylvania Electric Company to Solar Electric Company.

Table 20 shows items 10 to 20 inclusive from Table 19 (apportionment from Pennsylvania Electric Company), and accounts to which the pool expenses were charged on the books of Pennsylvania Electric Company, and the ultimate accounting distribution.

TABLE 20
APPORTIONMENTS FROM PENNSYLVANIA ELECTRIC CO.,
SOLAR ELECTRIC CO., 1936*

Item No.	Acct. No.	Accounts to Which Pool Expenses Were Charged	Total Pool Acct. On Books of Pa. Elec. Co. During Fiscal Yr. Ending Nov. 30, '36	Amt. Apportioned to Solar Elec. Co. During Calendar Year 1936
10	512	Gen. Off. Salaries	\$ 53,703.84	\$ 268.53
11	513	Gen. Off. Clerks' Salaries	107,394.29	541.97
12	514	Gen. Off. Stationery & Printing	10,403.11	52.01
13	515	Other Gen. Off. Supl.	1,031.69	5.15
14	516	Gen. Officers' Exp.	2,400.16	12.00
15	517	Gen. Off. Clerk's Exp.	437.50	2.19
16	518	Gen. Law Expenses	98,811.39	494.05**
17	520	Other Gen. Off. Expenses	13,480.60	67.42
18	536	Public Serv. Comm. Exp.	105.39	.53
19	537	Injuries and Damages	71,066.83	355.33
20	541	Other Gen. Expenses	180,997.90	904.80
Totals			\$539,832.70	\$2,703.98***

* Order nisi, Solar Electric Co., July 5, 1938, p. 53

** Shown on Exhibit No. 18 as \$180.52. Different not reconciled of record. Testimony Folder No. 29.

*** This total should check with the \$2,391 on Table 21 except for note **

Solar Electric Company did not fully comply with the Pennsylvania Commission's order of June 8, 1937, wherein it was required to furnish for the record a copy of each item billed and included in the pool account, together with the cost of such service to the billing company. However Solar Electric Company did submit photostatic copies of certain ledger sheets of the Pennsylvania Electric Company and also copies of the bills received by that company from the Utility Clearing Corporation, an affiliated company. But the Pennsylvania Commission was unable, from an examination an analysis of the data submitted, to determine definitely the details of the charges ultimately recorded on Solar Electric Company's books by way of apportionment: "first,

because the charges were not shown in sufficient particularity, and secondly, because the said ledger sheets covered the calendar year 1936, while the apportionment contained in the foregoing . . . (Table 19) was based upon data for the year ended November 30, 1936."³ The Commission was therefore obliged to use the information shown in these ledger sheets for the year ended December 31, 1936, as being representative of the character and amount of the charges applicable to the fiscal year ended November 30, 1936.

From an analysis of the data thus made available by Solar Electric Company, "it appears that the charges to the pool account of Pennsylvania Electric Company were comprised of (a) charges arising from Utility Clearing Corporation, (b) contributions to Utilities Employees Securities Company, and (c) charges from other sources including Pennsylvania Electric Company itself."⁴ Each of these groups of charges will now be discussed.

Utility Clearing Corporation, an admitted affiliate, was incorporated under the laws of the State of Delaware on June 25, 1931. The charter of the company is very general and permits activities in a very broad field. What the corporation actually did since its inception was to act in the capacity of a clearing house for dealing with bills rendered to holding and intermediate holding companies in the Associated Gas and Electric System by affiliated companies and others. Bills thus rendered were charged to pool accounts on the books of the Clearing Corporation, and were apportioned to the various operating companies in the Associated System, including Pennsylvania Electric Company and Solar Electric Company. In other words, the holding and intermediate holding companies in the Associated System enjoyed

3. Order Nisi, Solar Electric Company vs. Pennsylvania Public Utility Commission, July 5, 1938, p. 54.

4. Order Nisi, op. cit.

the benefits of services rendered for them, but the cost thereof was passed on, in part, to Pennsylvania Electric Company and Solar Electric Company through the medium of Utility Clearing Corporation.

The total amounts thus apportioned or charged to Pennsylvania Electric Company during the calendar year 1936 amounted in the aggregate to \$300,169.37. Pennsylvania Electric Company allocated these total pool expenses to itself and to other Associated System Companies operating in the western part of Pennsylvania, basing them upon the relationship of the gross operating revenue of each company in the group to the total gross operating revenue of the companies in the Western Pennsylvania group. The percentage thus found and applied to the Solar Electric Company was 0.50 in 1936 (.80 per cent for the first five months of 1937). The amount actually allocated to Solar Electric Company being determined in this manner, it follows that a consideration of the propriety of all or any portion of charges arising from such billings by Utility Clearing Corporation likewise involves a consideration of the propriety of the charges to the pool account itself.

An examination by the Pennsylvania Commission of the bills from Utility Clearing Corporation which were absorbed in part by Solar Electric Company through allocations by Pennsylvania Electric Company disclosed that the items included therein were for the following purposes:

Expenses incurred on behalf of Pennsylvania Electric Company covering services and expenses in connection with Pennsylvania Public Service Commission investigation; services of statistical department preparing and checking consolidated system budget.
 New business summary of results of Erie Lighting Company and Pennsylvania Electric Company and operating ratio reports of these two companies.
 Services of employees preparing summary of cash forecasts.
 Checking authorized bank signatures.
 Cost of maintaining Associated Gas and Electric Company credit union.
 Maintaining addressograph stencil file of employees and

security holders of Clarion River Power Company, Erie Light Company, Penn Public Service Corporation and Pennsylvania Electric Company.
 Preparing, auditing and filing Federal Withholding Tax returns on Penn Public Service Corporation bonds.
 Telegraph and telephone charges for Pennsylvania Electric Company.
 Stationery and supplies for Pennsylvania Electric Company.
 Federal Income Tax withhold at Source on Penn Public Service Corporation Bonds.
 Rental of safe deposit vault at New York used by Associated System Companies.
 New business statistics.
 Sales agreement analyses.
 Employees business building plan.
 Study of Social Security legislation.
 Tax course and guide.
 Services of E.J. Kelly incident to Pennsylvania Assembly House Bill No. 2407.
 Services and expenses relative to Federal Public Utility Act.
 Rules and regulations of Federal Power Commission.
 Examination of letter to various officers and directors who occupy positions in more than one company.
 Study of Wheeler-Rayburn bill, study of rules and regulations of Securities and Exchange Commission.
 Consideration of the weight and effect of the Decision on Public Utility Holding Company Act by Judge Coleman of Baltimore.
 Numerous conferences relative to questions and problems arising out of such act and which would arise in the event of registration or non-registration thereunder, etc.
 Expenses in re: Pain v. Associated Gas and Electric Company.
 Expenses in connection with jeopardy tax assessment against Associated Gas and Electric Company, et al, by Federal Government.
 Cost of providing the executives and financial consultants of the companies in the Associated System with a weekly statement of each company's capitalization, which statement sets forth the name of each security, the maturity date interest and dividends are payable, amount authorized, issued, reacquired, cancelled, outstanding, call provision, par or liquidation value, registrar, transfer agent, trustee, etc.
 Services and expenses in connection with preparing accounting information for subsidiaries of Associated Gas and Electric Company.
 Making study of simplification of corporate structure of Associated System.
 Rearrangement of corporate set-up of servicing companies.
 Preparing sinking fund schedules.
 Legal services and advices in consideration of attempts to restrict dividends paid by utilities and investigation of law cases in various jurisdictions on this question.

Liability certificates for accountants.
 Study of proposed amendments to Corporate Reorganization Bill.
 Consideration of formation of investment companies to hold investments of subsidiaries for sale.
 Expenses of various suits against Associated Gas and Electric Company.
 Survey of bond coupon holders.
 Preparing earnings statement chart.
 Services and expenses incident to investigation by this Commission of such charges as herein illustrated.
 Institutional advertising and news releases.
 Tax matters.
 Expenses incurred in furnishing data to U.S. Senate Committee conducting investigation of lobbying activities in connection with Public Utility Act of 1935.
 Cost of publishing annual reports of Associated Gas and Electric Company and subsidiaries.
 Survey of Associated System public relations.
 Services and expenses of Utility Clearing Corporation.
 Expenses of employees of Associated System not including respondent.
 Accounting services for Associated System.
 Legal services incident to Wagner-Connelly Act.
 Rent of rooms in New York City available for meetings of security holders and others.
 Salaries of employees in Associated System not including respondent.
 Rental of tabulating equipment.
 Services and expenses in connection with the current operations of Associated Gas and Electric Company and Associated Gas and Electric Corporation and subsidiaries including services maintaining the general books and records, etc.
 Unspecified services by Moses and Singer.
 Cadet Training courses.
 Home study courses to system employees.
 Consumer consumption data expense.
 Administrative services of management representatives of the Associated System.
 Services of Messrs. Wasser and Rowe, Vice President and Controller of Associated System respectively.
 Services and expenses of Messrs. Magee and Mange for management services.
 Interest notices on Pennsylvania Electric Company and Penn Public Service Corporation bonds.
 Associated Magazine expense.
 Services and expenses of Utility Accountants and Tax Consultants, Financial and Securities Assistants, Corporate Records and Secretarial Assistants, Transfer and Coupon Paying Agency.
 Expenses of representative of Associated Gas and Electric System attending various conferences and conventions.

Expense incident to merger of Pennsylvania Electric Company and Pennsylvania Edison Company.
 Salary and expense of W.F. Langgans including contributions on subscriptions to Utilities Employees Securities Company Income Notes and company contributions to group and straight life insurance.
 Legal services on the affairs of Associated Gas and Electric Company and subsidiaries.
 And refunds to bondholders.

From a careful review of all data submitted for the record with respect to charges from Utility Clearing Corporation, the Pennsylvania Commission made the following observations: "(a) that respondent (Solar Electric Company) refused, failed, or neglected to comply with the orders of the Commission to furnish the cost to the original billing companies for alleged services or materials furnished and the necessity thereof, (b) that the bills themselves appear to indicate that the items contained therein were not incurred for the benefit of respondent but rather for holding and intermediate holding companies in the Associated System, (c) that respondent did not authorize services and expenses enumerated in the bills, nor did it approve the bills for payment, (d) that respondent failed to meet the burden of supporting such charges as proper items of expense, and (e) that bills were rendered in the abstract and generalized to such an extent in describing the charges that it was impossible to associate dollars and cents with the alleged services for which a charge was made."⁵ For these reasons the Commission disallowed all charges arising from billings by Utility Clearing Corporation as reflected in the pool account of Pennsylvania Electric Company and pro-rated, in part, to Solar Electric Company. The amount of the adjustment is determined in the following manner and is shown in the last column of the following table:

5. Order Nisi, op. cit., pp.56-57

6. Order Nisi, op. cit., p.58

TABLE 21
 BILLINGS FROM UTILITY CLEARING CORPORATION,
 SOLAR ELECTRIC COMPANY, 1936*

Acct. No.	Account Charged	Billings from Utility Clearing Corporation	%	Charged to Solar Elec. Co. Amount
314	Gen. Off. Stationery & Printing	\$ 4,245.87	0.50	\$ 21.23
518	General Law Expenses	93,781.69	0.50	468.91
537	Injuries and Damages	7,602.27	0.50	38.01
541	Other General Expenses	194,989.54	0.50	974.95
	Total	\$300,619.37		\$1,503.10

* Order Nisi, Solar Electric Company, p.59

The Pennsylvania Commission drew attention to Account No. 537-1, "Injuries and Damages," item 19, which is an expense under Group V of the general analysis of Chapters III and IV. The items charged to this account on the books of the Pennsylvania Electric Company and apportioned, in part, to Solar Electric Company do not in any sense represent injuries and damages. The record shows that out of a total of \$71,066.83 charged to "injuries and damages" on the books of Pennsylvania Electric Company, \$61,926.85 represented contributions made by Pennsylvania Electric Company to Utilities Employees Securities Company during the year 1936.

Utilities Employees Securities Company, an admitted affiliate, was incorporated under the laws of the State of Delaware on October 8, 1931. This corporation bought securities of companies in the Associated System, placed them in its portfolio, and issued its own income notes or bonds to employees in the Associated System in exchange for contributions made by employees in the Associated System, equal, in most cases, to 10 per cent of their salaries or wages. The bonds and notes thus acquired by the employees bore interest at the rate of 6 per cent per annum. Each

employer company is also required to pay 33 1/3¢ for each dollar contributed by its employees to provide for the payment of an additional 2 per cent interest over and above the regular cumulative rate of 6 per cent. For this purpose, the Pennsylvania Electric Company paid to Utilities Employees Securities Company \$61,926.85 during 1936, which sum was prorated in part to Solar Electric Company.

The Commission was of the opinion that they should not be considered as an allowable operating expense. The amount of the adjustment was determined in the following manner and is shown in the last column of the following tabulation:

Acct. No.	Account Charged	Contributions to Utilities Employees Securities Co. %	Charged to Solar Electric Co. Amt.
537	Injuries and Damages	\$61,926.85 0.50	\$309.63

Having determined the charges from transactions with Utility Clearing Corporation and Utilities Employees Securities included in the pool accounts of Pennsylvania Electric Company and prorated in part to Solar Electric Company, it followed that the balance in the pool accounts of Pennsylvania Electric Company and prorated, in part to Solar Electric Company, came from charges incurred by Pennsylvania Electric Company itself. Such charges were arrived at by deduction as is demonstrated in the following table:

TABLE 22
PRORATIONS FROM PENNSYLVANIA ELECTRIC CO.,
SOLAR ELECTRIC CO., 1936*

Item and Acct. No.	Account Charged	Total Amt. Prorated	Less Amounts representing Chgs. from		Balance of Prorations from Pa. Electric Company
			Utility Clearing Corp.	Utilities Employees Sec. Co.	
10 512	Officers' Salaries	\$ 268.53	\$ -	\$ -	\$268.53
11 513	Off.Clerks' Salaries	541.97	-	-	541.97
12 514	Stationery & Prtg.	52.01	21.23	-	30.78
13 515	Office Supplies	5.15	-	-	5.15
14 516	Officers' Expenses	12.00	-	-	12.00
15 517	Off.Clerks' Expenses	2.19	-	-	2.19
16 518	Law Expenses	494.05	468.91	-	25.14
17 520	Ofc.Expenses	67.42	-	-	67.42
18 536	P.S.C.Exp.	.53	-	-	.53
19 537	Injuries & Damages	355.33	38.01	309.63	7.69
20 541	Other Gen'l. Expenses	904.80	974.95	-	70.15R
Totals		\$2,703.98	\$1,503.10	\$309.63	\$891.25

"R" Denotes red figure

* Order nisi - Solar Electric Company, p.61

The above table reveals that, after the exclusion of charges from Utility Clearing Corporation and contributions by Utilities Employees Securities Company, the balance prorated to Solar Electric Company from the pool accounts of Pennsylvania Electric Company was \$891.25 for the year 1936. A review by the Pennsylvania Commission found that the charges which form the basis for the balance of these prorations indicated that the charges cover officers' and general office clerks' salaries, stationery, printing, office supplies, and expenses, officers' and office clerks'

expenses, law expenses, injuries and damages and other general expenses incident to the operation of a general office at Johnstown for the benefit of companies in the "Western Pennsylvania Group" of operating companies in the Associated System.

The Pennsylvania Commission, in giving consideration to these expenses, could see no good reason for the complicated intermingling of accounts of Solar Electric Company with those of Pennsylvania Electric Company in such a manner as to make an intelligent analysis thereof almost impossible. However, the record did indicate that the office force of the Pennsylvania Electric Company at Johnstown, Pennsylvania, did perform some service for Solar Electric Company and that it did use some supplies and incurred some expense for the benefit of Solar Electric Company. While Solar Electric Company could not be too strongly condemned for the manner in which it permitted its accounts to be kept and its expenses accumulated, the Pennsylvania Commission was nevertheless of the opinion that the amounts thus prorated to Solar Electric Company represented, in the aggregate, a fair and reasonable allowance for the service rendered and expenses incurred by Pennsylvania Electric Company on its behalf.

Certain of the items of expense on page 58, Table 19, of this study captioned "Direct Expenses of Solar Electric Company," will now be reviewed. Commission Exhibit No. 7, Table 23, shows the total charges and accruals to the Public Service Commission Expense account for 1936 as \$12,241. Of this sum \$2,590 in 1936 represents expenses incurred in connection with investigations undertaken by the Public Service Commission and the Federal Power Commission with regard to the contractual relationships and working arrangement between Pennsylvania operating companies in the Associated System (including Solar Electric Company) and their admitted and non-admitted affiliates. Since expenses of

TABLE 23

COMMISSION EXHIBIT NO. 7

SUMMARY ANALYSIS OF ACCOUNT 536 PUBLIC SERVICE

COMMISSION EXPENSE SOLAR ELECTRIC COMPANY, 1936 *

Purpose and Nature of Expense	Amount
Rate Case Expense Incurred by or on behalf of Solar Electric Company in re: e-8126, J. B. Stewart et. al. v. Solar Electric Company:	
Pay roll charges and proportion of general administration expenses transferred from books of Pa. Elec. Co.....	\$ 190
Monthly accruals for regulatory expense, concurrent credit to account "185-9 Reserve for Regulatory Expense".....	2,590
Transportation expense paid by Pennsylvania Electric Company on behalf of Solar Electric Co.....	10
Services and Expenses Incurred by Corporate Records & Secretarial Assistants (an affiliated entry).....	1,247
The Utility Management Corporation out-of-pocket expenses incurred by Davis, Morville & Nicholas.	376
Utility Clearing Corporation, preparing data by Treasury Department, services and expenses.....	751
Utility Accountants & Tax Consultants, services and expenses July, August, September, & October, 1936.....	3,806
Smith Bros. & Co., Printing briefs.....	1,428
Photostats of capital stock and loans, reports, etc.	73
Margaret E. Rogan, transcript of testimony.....	598
Traveling expenses, Pruner, Anderson, and Steven..	337
Edwin D. Dreyfus, Engineer - 6 days @ 100.....	600
Expenses.....	5
Maurice R. Schaff, Engineer 1 1/2 days @ 100.....	175
Expenses.....	44
Stenographic.....	10
Telephone Expense.....	1
Total	\$12,241

*Order No. 11404, Solar Elec. Co.; Testimony Folder No. 29

this character are non-recurring and because of the adverse findings made elsewhere in the Commission's study with regard to the allowance of the charges made by these affiliates, the Commission was of the opinion that these items should likewise not be included in allowable operating expenses.

The balance of the charges to this account in the year 1936, amounting to \$9,651, was incurred in connection with the present rate case, and therefore the commission held that they should have been deferred pending the disposition of the case. Since the Commission, under date of October 5, 1937, ordered temporary rates to be put into effect October 16, 1937, reducing Solar Electric Company's revenue \$11,300 per annum, and since Solar Electric Company was ordered to further reduce its rates, the Commission was of the opinion that the expenses of conducting the present proceeding were not properly allowable as operating expenses.

The Pennsylvania Commission submitted as part of its Exhibit "B" a copy of the management agreement, page 58, Table 19, Item 24, dated June 1, 1929, between Solar Electric Company and the J.G.White Management Corporation, now The Utility Management Corporation. In brief, this agreement provides that The Utility Management Corporation, termed "operating manager," shall act as general operating manager of the property of Solar Electric Company with authority to supervise and direct the management and operating of its property for a period of ten years. Section 7 of the agreement provides that "operating manager," as a compensation for its services, shall receive a sum equal to two and one-half per cent (2½%) per annum of the gross earnings of Solar Electric Company. Management fees actually paid by Solar Electric Company under the management contract and included in general expenses for the year 1936 were \$2,392.24.⁷

7. As of Jan. 1, 1939 the other servicing units were combined with the Utility Management Corporation.

Solar Electric Company did not furnish data with respect to cost to the billing company for specific management services, nor did it show any necessity for such service or offer any proof that specific service was rendered during any period. The record, with respect to management services, furnished prior to 1936, the Commission said, is replete with statements by Solar Electric Company designed to show that the operating manager stands ready and has an organization which is able to furnish management service to Solar Electric Company. Overall operating results of the operating manager were also placed in the record, but no cost data were furnished with respect to any specific service furnished to Solar Electric Company. Solar Electric Company also placed evidence in the record which it relies upon as proof of the necessity for management services and the benefits which are derived thereunder. However, Solar Electric Company, either could not or would not, in any instance, associate services rendered by the operating manager with fees paid by Solar Electric Company under the contract. The following quotation from the order nisi, page 67, is a statement by Solar Electric Company of proper allowances for items of management.

W. A. Reiber, an employee of Pennsylvania Electric Company and the Utility Management Corporation, testified at page 4890, as follows, in response to a question by attorney for respondent:

Q. What in your opinion would be the annual cost in the way of salaries and wages of such an organization as would be necessary to manage and operate the property of Solar Electric Company if it were independently managed and not a part of a large system?

A. \$19,436.00.

The items which are included in this \$19,436.00 are set forth in respondent's Exhibit No. E4,

which shows the salaries that would be paid to a president, secretary, treasurer, superintendent, legal and engineering consultant and minor clerical employees. Mr. Reiber testified during November 1934 and for that year the gross revenue of respondent was \$87,885.33. His testimony is, therefore, to the effect that 22% of the gross revenue of a utility is a proper allowance as operating expenses for the item of management. This is so much out of line with experienced management costs, that such testimony falls by its own weight. Reference to this testimony is made only for the purpose of showing the extent to which respondent has attempted to justify the management contract and fees paid thereunder.

From a careful review of the record with regard to management fees, the Pennsylvania Commission concluded "(a) that respondent (Solar Electric Company) did not submit data to show the cost to the operating manager for specific management services allegedly furnished or the necessity therefor as provided in the Commission's order of June 15, 1937; (b) that respondent placed no data in the record to indicate what the cost to respondent for management service would have been if such service had been secured from a non-affiliated interest; (c) that the record indicates that the operating personnel at Brookville is adequate to meet the management problems of a company of this size; (d) that respondent has failed to sustain the burden of the proof to show that management services were actually rendered or that any such services were reasonably necessary to the efficient operation of the property of respondent; and (e) that respondent has failed to show that the management contract is in the public interest or even that it is in the interest of the respondent itself, and that on the contrary the record strongly indicates the contract to be detrimental to respondent and against public interest."⁸

The Commission therefore, disallowed management fees in

⁸Order Nisi, op. cit., p. 53.

their entirety, and consequently operating expenses were reduced \$2,392. for the year 1936.

The billings from Corporate Records and Secretarial Assistants shown as item 26, Table 19, Page 59, amounting to \$165. for the year 1936, were charged to a reserve account. Other billings from this same affiliate shown as item 31, were charged direct to "Other General Expenses," and amounted to \$207. for the year 1936. An examination of Solar Electric Company's Exhibit No. 20, which contains copies of these bills, discloses that the expenses were stated to have been incurred for the following purposes: securing information, preparation of data, conferences, etc., in connection with investigation being made by the Federal Power Commission; preparation of resolutions and correspondence; preparation of data and conferences with reference to Federal Power Commission investigation under order of January 6, 1936, re: service company charges; preparation and checking resolutions; preparation of correspondence; stenography, typing; checking corporate data for 1936 report to Public Service Commission; incidental work incident to Federal Power Commission Report in Docket IT 5015 and preparation of corporate information and conferences with reference to same; preparation of minutes; preparation of list of officers of Solar Electric Company; etc.

Here again the Pennsylvania Commission found that Solar Electric Company failed to comply with the order of the Commission under date of June 8 and 15 and July 1, 1937, with respect to furnishing data pertaining to the cost to the billing company and necessity for the service, nor were the records of this affiliate made available for examination by the Commission's accounting staff. It will be noted from an examination of the bills themselves that most of the expense incurred was due to litigation between the Solar Electric Company and the Federal Power Commission which involved, among other things, the relationship and working arrangements between this affiliate and Solar Electric Company. These items were "disallowed as proper operating expenses because

respondent failed, refused, or neglected to furnish data showing (a) the cost of furnishing service to the original billing company, (b) proof that specific service was rendered and the necessity therefor, and (c) contractual relationship and working arrangements with respondent."⁹ Furthermore, the commission stated that "the major portion of these expenses are non-recurring in nature and should not under any circumstances be considered in determining the normal operating expenses of Solar Electric Company. Other minor expenses, such as keeping duplicate minute books should be absorbed by the Associated System for whose benefit they were maintained."¹⁰

The billing from the affiliate Utility Accountants and Tax Consultants shown as item 27, Table 19, amounting to \$632. for the year 1936, was charged to a reserve account. Copies of bills from this organization attached to and made a part of Exhibit No. 22, indicate that the expenses were stated to have been incurred for purposes as follows: preparation of data for use in replying to Senate Committee investigation lobbying activities; preparation of the 1935 audit; preparation of data for use in replying to Federal Power Commission order, stenography; typing; expenses of New York employees making an analysis of 1932 Federal Income Tax Assessment; review of annual report to Commission; Federal investigations; preparation of balance sheet, income and surplus statements; services and expenses in preparation of information requested by the Federal Power Commission Examiner relative to investigation into service company charges; conferences; preparation of corporate net income tax for 1935; expenses and services in re: Public Service Commission investigation into service charges; preparation of federal income tax returns for 1935, etc.

The Pennsylvania Commission by its orders of June 8 and July 1, 1937, requested Solar Electric Company to furnish cost and other data of this organization, but Solar Electric

⁹Order Nisi, *op. cit.*, p. 59

¹⁰*Ibid* p. 59

Company failed, neglected, or refused to make such data available. The Commission, therefore disallowed these items of expense for the same reasons that it disallowed the charges arising from billings by Corporate Records and Secretarial Assistants heretofore reviewed.

The bills from E.J. Cheney, item 30, an affiliate, in the amount of \$43., for the year 1936, show that the expense was incurred for the following purposes: consulting work on rates and general matters; conferring and determining revenue effect of new Pennsylvania Electric Company rates; and services and disbursements in connection with inventory and valuation of property. This bill indicates that, for the most part, the expenses were incurred incident to the present rate case and as such are not properly allowable for the reasons heretofore stated. Moreover, Solar Electric Company was required to furnish, for the record, certain data relative to charges from E.J. Cheney in accordance with orders of the Commission under date of June 8 and July 1, 1937, but failed, neglected, or refused to make such data available, and therefore these items were not allowable for the same reasons cited in considering the charges arising from billings by Corporate Records and Secretarial Assistants and Utility Accountants and Tax Consultants reviewed heretofore. Billings by Ford, Bacon, and Davis, item 32, amounting to \$1,100, during 1936, cover "services and expenses in connection with certain investigations and checks of valuations in accordance with accepted proposal dated September 16, 1935." Solar Electric Company furnished no other information, notwithstanding the Commission's order of July 1, 1937. From the record, it is evident that the only valuations made were those which Solar Electric Company ordered made of its property for use in this rate case. This item of expense was, therefore, disallowed because it represented rate case expense. Moreover, an item of this character is of a non-recurring nature and should not be considered in the determination of normal operating expenses upon which rates for the future are predicted.

ADMINISTRATIVE AND GENERAL EXPENSES

TABLE 24

SOLAR ELEC. CO. EXHIBIT NO. 20

ANALYSIS OF ACCOUNT 541, OTHER GENERAL EXPENSES *
SOLAR ELECTRIC COMPANY, 1936

Apportionment from Pa. Electric Co. - Adjustment of Computation of Employees' Insurance Premiums	IR
Apportionment from Pa. Electric Co. - Advisory Expense ...	\$ 852
Apportionment from Pa. Electric Co. - Corporate Expense ..	54
Management Services	
The Utility Management Corporation	2,392
Advisory Services	
Accrument	\$1,057
Edward J. Cheney	43
Corporate Records & Secretarial Assistants	112
Ford, Bacon and Davis, Inc.	1,099
Total	2,311
Corporate Expense	
Corporate Records and Secretarial Assistants	95
Other General Expenses	
Contribution to Memorial Home - Brookville ...	\$ 1.50
Brookville American - Advertising Street Lighting Contract	4.20
Donation to Sons of Legion Drum Corps	1.00
Funeral Flowers	10.00
Donation - American Red Cross-Flood Disaster ..	5.00
Fred Hayes - Hire of Boat - Flood	5.00
Brookville American - Special Advertising	8.50
D. D. Phillips - Laurel Festival Stamps .....	.25
Advertisement in Catholic School Year Book ...	2.00
Jeffersonian Democrat - Advertisement	3.00
Jeffersonian Democrat - Advertisement	1.00
Decorations for Laurel Festival	5.00
Advt. - Brookville Flower Show Program	3.00
Advt. - Pine Creek Fire Dept. Program	2.50
Contribution - American Red Cross	5.00
Donation to Tuberculosis Society	1.05
Advt. Child Welfare Circus Program	1.00
Contribution - Christmas Decorations	5.00
Advt. - Women's Relief Corps Show Program	2.00
Total	66 \$5,769

"R" denotes red figure

* Order No. 11404 Solar Electric Co.; Testimony Folder No. 29

The amounts included in the operating expenses of Solar Electric Company covering contributions and donations, item 33, for various charitable purposes, shown under other general expenses, Table 24, for 1936 were \$29. While this amount was relatively small, the commission thought that to allow it as an operating expense would in effect be equivalent to giving Commission approval to these sums as contributions and donations by the consumers rather than by the company itself. It was the Commission's opinion that items of expense of this character should be absorbed by the stockholders and not utility rate payers.

The above analysis shows that the main causes of variation are due to the following factors:

1. Management fees and other affiliated charges.
2. Method of apportioning joint expenses.
3. Improper charges or errors in charging.
4. Management policy regarding the individual accounts.

The relation of these factors to public rate control will be discussed in the next chapter.

CHAPTER VI

REASONABLE ALLOWANCES FOR THE ADMINISTRATIVE AND GENERAL EXPENSES AS SUGGESTED BY AN ANALYSIS OF THE SOLAR ELECTRIC COMPANY

1. Reasonable Allowances for the Administrative and General Expenses

The administrative and general expenses of Pepco have been compared with a number of other companies and large variations have been noted. The causes of these variations in this particular company have been analyzed and it was found that most of them represented milking by the management.

Reasonable allowances for this group of expenses of the Solar Electric Company will now be determined from the preceding analysis by the Pennsylvania Public Utility Commission. The relation of the disallowed expense items and money used in fighting rate cuts to the gross revenue of the company will also be analyzed.

In this case the Pennsylvania Utility Commission disallowed all charges for management, accounting, engineering, and similar services arising from billings by affiliated interests which were for the direct or indirect benefit of the holding and servicing companies in the Associated System.¹

¹In 1935 the Pennsylvania Public Service Commission decided that they could not determine the fairness of these management and affiliated charges. They asked cooperation with the Federal Power Commission in a joint investigation. The Federal Power Commission made an order dated January 6, 1936, to institute an investigation into certain contracts

REASONABLE ALLOWANCES

It allowed, however, all expenses actually incurred in the operation of Solar Electric Company's local office at Brookville, as well as the cost of similar services on behalf of Solar Electric Company by Pennsylvania Electric Company at Johnstown.

Operating expenses of Solar Electric Company for the year 1936 as allowed by the Pennsylvania Commission, in their order nisi, exclusive of taxes and provision for annual depreciation are summarized hereunder:

TABLE 25

ALLOWABLE OPERATING EXPENSES, SOLAR ELECTRIC COMPANY, 1936*

Operating expenses as reflected on books of Solar Electric Company exclusive of taxes and provision for depreciation (p. 59).....\$75,590.
Adjustments:

Disallowed Expenses:	
Generation by Gas Power.....	4,119.
Pool Expenses from Pennsylvania Electric Co.;	
Utility Clearing Corporation.....	1,503.
Utility Employees Securities Co.....	310.
Uncollectable Consumers' Accounts.....	22.
Public Service Commission Expenses.....	12,240.
General Expenses	
Management Fees.....	2,392.
Corporate Records and Secretarial Assistants..	372.
Utility Accountants and Tax Consultants.....	632.
E.J. Cheney.....	43.
Overaccrual for Corporate and Advisory Expense	
Ford, Bacon, and Davis.....	1,100.
Utility Clearing Corporation.....	29.
Contributions and Donations.....	29.
Total Disallowed Expenses.....	\$22,761.
Additional Expenses Allowed:	
Generation by Gas Power	\$ 86.
Rent of Office at Brookville.....	600.
Total Additional Expenses.....	686.
Adjusted operating expenses exclusive of taxes	
and provision for depreciation.....	<u>\$53,516.</u>

*Order nisi, Solar Electric Company, p. 81.

continued
and working arrangements under which charges were paid by a number of companies (including Solar Electric Company) in the Associated Gas and Electric System. Since the books of certain so-called affiliated companies were not made available in this investigation, no results were obtained. The company took the case to court, and it finally came to the United States Supreme Court, which held, in an opinion handed

It will be seen from the foregoing that the allowable expenses, exclusive of taxes and provision for annual depreciation, for the year 1936 are \$53,515.55.

When the allowable administrative and general expenses are expressed in terms of the gross revenue for 1936 and the estimated revenue, the following is obtained:

TABLE 26

ALLOWABLE ADMINISTRATIVE & GENERAL EXPENSES, SOLAR
ELECTRIC COMPANY, 1936 *

Solar Electric Company in Terms of		Pepco 1930-1934 Average	Jamestown Municipal Plant - 1930-1934 Average
Old Gross Revenue	Estimated Gross Revenue		
1.2¢	1.7¢	3.44¢	1.52¢

continued

down May 24, 1938, that the Federal Power Commission had the right to investigate the books of the affiliated companies. As a result of this decision the Federal Power Commission on October 25, 1938, took preliminary steps toward resuming a sweeping investigation into the affairs of the Associated Gas and Electric Company.

* These results are obtained by the following method:

Group I		Group II	Group IV
General Office Sal., & Expen. Etc.	Other General Expense	Law Expenses	Regulatory Commission Expense
\$928 Apport. 2 Direct	\$70 Cr 287	\$25	\$.53
\$930	\$217	\$25	\$.53 -Total \$1173.

This gives a total allowance of approximately 1.5 cents per dollar of gross revenue for Groups I, II and IV according to the Commission's order nisi. This is lower than the 1930-1934 average for Pepco and is as low as the corresponding average for the Jamestown Municipal Plant.

The relation of the disallowed expenses to the gross revenue will now be determined so that comparisons can be made with the amounts of money Pepco used to reduce its rates.

2. The Relation of the Disallowed Expenses
to the Gross Revenue

Table 27 is a compilation to show the relation of the disallowed administrative and general expenses in terms of the gross revenue of the company. In the first column are shown the amounts spent for this group of expenses since 1929, when the present rate case began. In the second column are allowances for these expenses based on the Commission's decision. The Commission allowed approximately 1.5¢ for these three groups of expenses for 1936. In this table an average increase of 100% is allowed, or in other words, the average expenses each year are figures at 3.¢ per dollar of gross revenue.² The third column shows the difference

continued

See Tables 19 and 22. The \$928. apportioned is obtained as follows: Table 22 shows \$891.25 as the expense to be allowed for rate making purposes. Adding the credit item \$70.15 gives \$961.40, subtracting the law expense and the injuries and damages, the latter not being considered part of Group I, and the P.S.C. expense, leaves \$928. The \$2 direct expense is from Table 19, items 22 and 23. The \$287 is from Table 19, being the Haskins and Sells fee, item 29 and the miscellaneous item 34. The credit item of \$70 is from Table 22, item 20.

²This allowance by the Pennsylvania Commission is for Groups I, II and IV and does not include Groups III and V. In the 1930-1934 average of Pepco of 4.12¢, Group III was 0.1¢ and Group V, 0.5¢ per dollar of gross revenue.

between these two amounts, or the calculated disallowed expenses. The fifth column shows these expenses expressed in terms of the gross revenue of the company. This average has varied from 3.9¢ to 26¢ since the company has been fighting the rate case. The average for the period is 14.1¢ per dollar of the gross revenue.

TABLE 27
DISALLOWED ADMINISTRATIVE AND GENERAL EXPENSES ON THE
BASIS OF COMMISSION OPINION, SOLAR ELECTRIC
COMPANY 1929-1937 *

Year	Amt. Spent for Admin & Gen. Exp.	Amt. All- owed on Basis of Commis- sion Opinion	Differ- ence	Gross Rev.	Cents Per Dollar of Gross Rev.
1929	\$ 5,083.	\$ 2,200.	\$ 2,883.	\$ 73,324.	3.9¢
1930	16,978.	2,438.	14,540.	81,282.	18.0¢
1931	25,064.	2,639.	22,425.	87,953.	26.0¢
1932	22,685.	2,646.	20,039.	88,193.	22.7¢
1933	6,565.	2,526.	4,039.	84,201.	4.8¢
1934	13,390.	2,637.	10,753.	87,885.	12.2¢
1935	8,857.	2,693.	6,164.	89,782.	6.9¢
1936	19,142.	2,890.	16,252.	96,318.	17.0¢
1937	18,779.	3,077.	15,702.	102,557.	15.3¢

*See Statistical Section, Table 42

In other words, in terms of the commission's findings allowing at least a 100% increase, 14¢ of the consumer's dollars since 1929 has been spent for purposes not thought worthy by the Commission. This compares with 6¢ per dollar of gross revenue used by Pepco since 1925 in reducing its rates from among the highest in the country to among the lowest, or .18 cents per kilowatt-hour. When this 14.¢ is similarly expressed, it is .93 cents per kilowatt-hour.

3. The relation of Money Spent in Fighting Rate Case To The Gross Revenue

Table 28 is a compilation to show the relation of money spent since 1929 by the Solar Electric Company in litigation. In the first column is shown the amount spent for this purpose;³ in the second, the gross revenue of the company; and in the third column, the above amounts expressed in terms of cents per dollar of gross revenue. The average for any one year has varied from 0.42¢ in 1930 to 21.2¢ in 1932. The overall average is 7.66¢, or almost 8¢ per dollar of gross revenue for this period. The borough of Brookville has itself spent over \$20,000.,⁴ which is over \$2,500 per year. This is, in terms of the gross revenue of the company, almost 3¢.

The above comparisons raise an interesting question. The electric rates of Pepco are today among the lowest in the country, whereas those of Solar are among the highest. The former company contributed 6 cents per dollar of gross revenue of its own money each year in lowering rates, whereas the Solar Electric has spent almost 8 cents, and the Borough 3 cents, in keeping the rates high. It must be remembered that these are eight-year averages. Of course, in this comparison it is realized that the two companies are not operating under the same physical conditions. However, it is not believed that the physical conditions account for a large part of this difference. The Pennsylvania Public Utility Commission in making their allowances for the administrative and general expenses specified an allowable figure for Solar that was lower than that spent by Pepco any time in its history.

³ This amount is over \$70,000. An editorial in the Brookville Republican, Thursday, May 11, 1939, page 2, states \$100,000.

⁴ Article by Borough Solicitor Lavelle A. Wilson in the Brookville Republican, Thursday, May 11, 1939, Page 1.

In terms of kilowatt-hours, it amount to .7 cents per kilowatt-hour in fighting litigation. This compares with Pepco's average of .18 cents used in reducing rates.

TABLE 28

MONEY USED IN FIGHTING RATE CASE BY SOLAR ELECTRIC COMPANY AND BOROUGH OF BROOKVILLE, 1928-1937 *

Year	Amt. Spent for Litigation	Gross Revenue	Cents per Dollar of Gross Revenue
1928	\$ 1,255.	\$ 64,991.	\$ 1.93
1929	900.	73,324.	1.23
1930	342.	81,282.	.42
1931	11,746.	87,953.	13.40
1932	18,700.	88,193.	21.20
1933	2,589.	84,201.	3.08
1934	8,851.	87,885.	10.10
1935	4,252.	89,782.	4.74
1936	12,422.	96,318.	12.90
1937	11,917.	102,557.	11.61

*See Statistical Section, Table 42.

It appears that the main difference is due to the attitude of the managements of the two companies. The Pepco management pursued a course beneficial to stockholders and rate payers, whereas the Associated Gas & Electric System pursued a course which perhaps temporarily benefits the stockholders but at the expense of the consumers.

CHAPTER VII

CONCLUSIONS

Pepco had been in constant conflict with the Utility Commission of the District of Columbia ever since the inception of that body in 1914. Its electric rates were among the highest in the country and it did not seem willing to reduce them. Finally in 1924, a settlement was reached whereby the company agreed to share a certain amount of its return on capital each year to reduce rates.

The amount of this return is dependent upon a prior deduction of reasonable operating expenses and taxes. If the operating expenses are inflated, either in fighting rate reductions or otherwise, this reduces the amount available for the return on capital. The administrative and general expense group of accounts is very subject to such manipulation. It is this fact that makes their relation to the success of Pepco of interest.

During the ten-year period, 1925-1934, Pepco under the sliding scale averaged 4.10 cents per dollar of gross revenue for the administrative and general expenses, at the same time reducing its domestic rates from among the highest in the country to among the lowest. For the period 1930-1934, the average was 4.12 cents per dollar of gross revenue. The per cent variation from this five-year average was +14 and -17 %. Since 1934 this average has increased and was 6.41 cents for 1937. The main sources for this increase were (1) increases in the salary accounts because of increased personnel requirements, (2) more liberal relief and pension plans and (3) assessments made by the regulatory body for

special regulatory commission investigations.

The effect on the average domestic consumer of Pepco of the 4.10¢ per dollar of gross revenue spent for the administrative and general expenses (during the period it was making large rate decreases) has been that the unit costs for this group of expenses have been cut from 0.26 cents per kwh in 1926 to 0.13 cents in 1934. In other words, the effect of this group of overhead costs on the average domestic consumer was that the cost to him per kwh was cut in half. The total relative amount spent remained the same, but because of reduced rates and other factors the average domestic consumption was more than doubled.

When the above averages of Pepco are compared with those of a group of New York companies, large variations are noted. For the period, 1930-1934, the 4.12¢ average of Pepco for the administrative and general expenses compares with a variation of from 2.37¢ to 16.20¢ for similar groups of expenses. Pepco is well among the lowest in this comparison.

The analysis of the administrative and general expenses of the Solar Electric Company by the Pennsylvania Public Utility Commission shows that the main causes of variation in this group of expenses are due to the following:

1. Management fees and other affiliated charges.
2. Method of apportioning joint expenses.
3. Improper charges or errors in charging,
4. Management policy regard the individual accounts.

The Pennsylvania Utility Commission disallowed many items of expense for rate making purposes. When the items it allowed for groups I, II and IV of the administrative and general expenses are expressed in terms of gross revenue they approximate 1.5 cents per dollar of gross revenue. This compares with the 1930-1934 average of Pepco of 3.44 cents for similar expenses. This suggests that an amount over 4.10 cents for the five groups of administrative and general expenses is not really necessary for efficient operation.

A general analysis of the New York companies shows that most of the variations are due to money spent for "regulatory commission expenses", "law expenses", "relief and welfare work", large salaries and management fees, etc.

The stockholders of Pepco contributed approximately 6 cents per dollar of gross revenue during the 1925-1932 period to reduce rates, 2 cents of which went to make the large reduction in the domestic rates. During the period 1933-1938 Pepco contributed 3 cents per dollar of gross revenue to reduce rates, 1 cent of which was for the reduction in domestic rates. Thus a total of approximately 7-10 cents per dollar of gross revenue was utilized for the administrative and general expenses and for contributions to reduce rates. The study shows that some companies spent more than this amount merely in fighting rate cuts and otherwise increasing expense items.

It is possible that if the companies used the money in reducing rates which they spent in fighting rate cuts and otherwise inflating their expense items to keep the return on capital low, the stockholders would benefit as well as the consumers. Table 29 shows the earnings on stock outstanding for Pepco for the period 1914 to 1938. During the time Pepco was in constant conflict with the commission, the rates of return on the common stock varied from 10.3 per cent in 1914 to 25.1 per cent in 1924. Under the sliding scale arrangement the return to the common stockholder varied from 38.3 per cent in 1925 to a high of 68.0 per cent in 1930. It is realized that this large rate of return is not alone due to the sliding scale, but at least it shows that the common stockholder did not suffer under the sliding scale.

It appears that both stockholders and consumers would be benefited if a more automatic plan of rate regulation were in common use and if more attention were given to reasonable operating expenses, as in Washington, D.C. The large variations in administrative and general expenses are not explicable on the grounds of the results produced, and their principal sources are to be found in the differences in attitude of certain

TABLE 29

EARNINGS ON STOCK OUTSTANDING

POTOMAC ELECTRIC POWER CO., 1914 - 1938

Year ending Dec. 31	Amount Avail. for Dividends	Amount of Preferred Stock Outstanding	Amount Paid on Preferred Stock	
	\$	\$	\$	%
1914	617,425	250,000	25,000	10
1915	666,942	250,000	27,500	11
1916	771,861	250,000	27,500	11
1917	647,094	250,000	27,500	11
1918	568,780	250,000	27,500	11
1919	544,903	250,000	22,500	9
1920	532,818	250,000	20,000	8
1921	905,086	250,000	25,000	10
1922	959,861	250,000	25,000	10
1923	1,029,896	250,000	25,000	10
1924	1,474,523	250,000	30,000	12
1925	2,295,724	2,000,000	(b)	
1926	2,598,117	2,000,000	106,128	6 a
1927	2,932,162	7,000,000	119,925	6 1/2
			128,772	5 1/2
1928	3,699,677	2,000,000 (6%)	119,955	6 1/2
		5,000,000 (5 1/2%)	272,075	5 1/2
1929	4,120,136	2,000,000 (6%)	119,970	6 1/2
		5,000,000 (5 1/2%)	274,947	5 1/2
1930	4,471,725	2,000,000 (6%)	119,970	6 1/2
		5,000,000 (5 1/2%)	274,951	5 1/2
1931	4,276,674	2,000,000 (6%)	119,970	6 1/2
		5,000,000 (5 1/2%)	275,000	5 1/2
1932	4,142,004	2,000,000 (6%)	120,000	6 1/2
		5,000,000 (5 1/2%)	275,045	5 1/2
1933	4,014,164	2,000,000 (6%)	120,000	6 1/2
		5,000,000 (5 1/2%)	275,044	5 1/2
1934	3,598,793	7,000,000 (g)	395,042	(g)
1935	3,607,267	7,000,000	395,041	
1936	4,246,041	7,000,000	395,040	
1937	4,886,974	7,000,000	395,039	
1938	4,187,910	7,000,000	493,788	

a. Amount paid on preferred stock is not 6% on stock outstanding because full amount of stock was not outstanding the entire year.

b. No dividend paid in 1925 on this new preferred stock which was issued as of 11 - 2 - 25.

c. Denotes deficit.

TABLE 29

EARNINGS ON STOCK OUTSTANDING

POTOMAC ELECTRIC POWER CO., 1914 - 1938

Amount of Common Stock Outstanding	Available for Common Stock	Amount Paid on Common Stock	Added to Surplus
(Par \$100)	\$ %	\$ %	\$ %
5,750,000	592,425 10.3	575,000 10	17,425
5,750,000	639,442 11.1	632,500 11	6,942
5,750,000	744,361 12.9	632,500 11	111,861
5,750,000	619,594 10.8	632,500 11	12,906 c
5,750,000	541,280 9.4	632,500 11	91,220 c
5,750,000	522,403 9.1	517,500 9	4,903
5,750,000	512,818 8.9	460,000 8	52,818
5,750,000	880,086 15.3	575,000 10	305,086
5,750,000	934,861 16.3	575,000 10	359,861
5,750,000	1,004,896 17.5	575,000 10	429,896
5,750,000	1,444,523 25.1	690,000 12	754,523
6,000,000 d	2,295,724 38.3	840,000 14	1,455,724
		2,880,000 48	
6,000,000	2,491,989 41.5	960,000 16	1,531,989
6,000,000	2,683,465 44.7	1,080,000 18	1,603,465
6,000,000	3,307,647 55.1	1,200,000 20	2,107,647
6,000,000	3,725,219 62.1	1,320,000 22	2,405,219
6,000,000	4,076,804 68.0	1,440,000 24	2,636,804
6,000,000	3,872,704 64.6	1,560,000 26	2,312,704
6,000,000	3,746,959 62.4	1,680,000 28	2,066,959
6,000,000	3,619,120 60.3	1,800,000 30	1,819,120
6,000,000	3,203,751 53.5	2,280,000 38	923,751
6,000,000	3,212,226 53.5	2,550,000 42.5	662,226
6,000,000	3,851,001 64.1	3,600,000 60	251,001
6,000,000	4,491,935 74.9	3,900,000 65	591,935
6,000,000	3,694,122 61.5	3,900,000 65	183,332 Cr.

d. The pref. stock outstanding hitherto was converted into common in 1925, and a 14% dividend declared in 1925, on the comb. shares.

e. Regular dividend.

f. Special dividend (Paid out of company's portion of the impounded fund. This fund was created, prior to the sliding scale, out of money that was in litigation, due to the rate case.

g. Same as above.

utility managements and commissions toward what constitutes a proper rate level.

Because of the inherent characteristics of the industry--among others, a preponderance of overhead expenses and the fact that it costs almost as much to serve the small domestic consumer as the large -- it seems that a policy of agreeing on a definite rate base and of sharing profits to reduce rates, which has worked to such advantage for Pepco, would, in varying degrees, benefit companies that are now following a different course.

STATISTICAL SECTION

ADMINISTRATIVE AND GENERAL EXPENSES

TABLE 30
POTOMAC ELECTRIC POWER COMPANY

YEAR	1925	1926	1927	1928	1929	1930	1931
GROSS REVENUE(000 omitted). \$	7,024	7,875	\$ 8,480	\$ 9,339	\$ 9,954	\$ 10,488	\$ 10,791
ADMIN. & GEN. EXP., TOTAL.	277,404	307,875	368,407	385,689	401,509	369,527	462,851
GROUP I, TOTAL	218,767	294,659	296,513	307,878	332,010	285,287	364,327
Administrative salaries.	72,248	75,486	85,301	87,245	87,246	82,656	81,068
Other gen. office sal.	36,280	46,249	51,222	53,543	54,112	67,688	105,060
Gen. office supp. & exp.	20,561	24,610	25,919	36,703	41,424	33,825	40,588
Gen. stationery & print.	45,457	56,252	63,619	64,008	69,766	19,873	22,240
Mgt. & sup. fees & exp.	---	---	---	---	---	---	---
Other misc. gen. exp.	44,271	51,962	70,452	66,379	79,462	81,245	115,371
GROUP II, LAW EXPENSES ...	10,724	11,530	12,473	14,271	11,969	12,773	13,755
GROUP III, RELIANT & WEL. WK.	2,902	3,919	3,307	5,018	5,630	10,174	9,862
GROUP IV, REGULAT. COM. EXP.	---	---	---	---	---	10	411
GROUP V, MINOR GEN. EXP.	45,011	37,767	56,114	---	51,900	61,283	74,496
Injuries & damages	35,576	39,682	42,693	49,961	39,062	26,754	43,057
Store expense	---	---	---	---	---	---	---
Transportation expense ..	---	---	---	---	---	---	---
Undistributed adjustments	3,193cr.	19,606cr.	5,146cr.	---	3,703cr.	13,767	10,317
Franchise requirements ..	---	---	---	---	---	---	---
Amortization of franchises	---	---	---	---	---	---	---
Main. of gen. structures.	12,628	17,685	18,567	11,684	16,541	7,641	8,749
Op. of commun. system ...	---	---	---	---	---	12,835	12,280
Main. of commun. system.	---	---	---	---	---	286	93

STATISTICAL SECTION

TABLE 30 cont'd.
POTOMAC ELECTRIC POWER COMPANY

YEAR	1932	1933	1934	1935	1936	1937	1938
GROSS REVENUE(000 omitted) \$	10,897	10,982	\$ 12,127	\$ 13,154	\$ 14,093	\$ 14,725	\$ 15,047
ADMIN. & GEN. EXP., TOTAL.	433,458	531,810	493,928	649,886	879,459	941,415	973,950
GROUP I, TOTAL	333,914	397,879	413,892	468,739	581,457	620,640	715,770
Administrative salaries.	86,989	116,780	132,502	135,183	164,441	172,620	178,313
Other gen. office sal.	109,238	147,345	160,767	187,780	242,895	227,316	305,696
Gen. office supp. & exp.	37,806	41,122	45,488	52,595	55,042	2,722a	2,850a
Gen. stationery & print.	7,118	1,242	1,325	856	155	184,459	190,515
Mgt. & sup. fees & exp.	---	---	---	---	---	5,050	5,375
Other misc. gen. exp.	92,763	91,390	73,810	92,325	118,924	38,473	32,921
GROUP II, LAW EXPENSES ...	16,333	50,923	13,645	12,342	13,430	14,724	20,285
GROUP III, RELIANT & WEL. WK.	9,227	15,063	14,676	30,940	181,380b	237,793b	174,775b
GROUP IV, REGULAT. COM. EXP.	7,400	595	36	690	14,628	10,338	14,697
GROUP V, MINOR GEN. EXP. ...	66,584	67,350	51,679	137,175	88,564	47,920	48,423
Injuries & damages	30,869	28,614	15,336	72,925	50,892	33,732	35,864
Store expense	---	---	---	---	---	---	---
Transportation expense ..	---	---	---	---	---	---	---
Undistributed adjustments	15,447	7,899	661	38,841	4,579	---	---
Franchise requirements ..	---	---	---	---	---	---	149
Amortization of franchises	---	---	---	---	---	---	---
Main. of gen. structures	7,631	15,846	21,905	9,943	18,383	12,488	11,959
Op. of commun. system ..	12,637	12,991	13,777	15,466	14,698	407	---
Main. of commun. system.	---	---	---	---	12	1,293	451
a Exp. of Gen. Officers	1937 \$1,852	1938 \$2,318	b Pensions	1936 \$136,246	1937 \$182,965	1938 \$97,058	
Exp. of Gen. Office Emp.	870	532	Employees Welfare	45,134	54,828	77,717	

TABLE 31
BUFFALO GENERAL ELECTRIC COMPANY*

YEAR	1930	1931	1932	1933	1934	1935	1936
GROSS REVENUE(000 omitted) \$	13,943	\$ 13,969	\$ 12,580	\$ 12,240	\$ 14,288	\$ 14,661	\$ 16,901
ADMIN. & GEN. EXP., TOTAL	728,082	752,663	696,405	559,846	563,652		
GROUP I, TOTAL	594,752	559,945	547,008	433,260	442,417	509,623	506,425
Administrative salaries.	121,237	98,355	123,213	96,831	73,435	93,679	90,750
Other gen. office sal. .	194,243	198,010	286,414	206,594	236,254	299,661	251,719
Gen. office supp. & exp. .	31,717	51,508	55,281	35,272	39,464	45,977	57,198
Gen. stationery & print.	9,017	17,366	13,370	11,730	10,885	13,710	18,613
Mgt. & sup. fees & exp. .	---	---	---	---	---	---	---
Other misc. gen. exp. . .	278,458	194,706	68,730	82,833	82,319	96,596	88,165
GROUP II, LAW EXPENSES ...	41,116	26,575	37,010	35,721	27,744	41,955	42,801
GROUP III, RELIEF & WEL. WK. .	26,917	25,406	27,875	57,496	43,656	86,311	74,877
GROUP IV, REGULAT. COM. EXP. ---	---	---	---	---	---	---	---
GROUP V, MINOR GEN. EXP. ..	147,849	140,737	86,512	33,369	74,835		
Injuries & damages	50,594	74,715	32,120	12,239	16,696		
Store expense	36,246	25,062	24,841	14,823	12,959		
Transportation expense	10,504	8,839	---	---	---		
Undistributed adjustments	11,341	2,051	62	15,396r.	1,099er.		
Franchise requirements	775	782	783	287	246		
Amortization of franchises	---	---	---	---	---		
Main. of gen. structures	27,814	21,204	25,148	17,978	41,879		
Op. of commun. system ...	10,575	8,099	3,536	3,367	4,073		
Main. of commun. system .	---	25	22	114	81		

* Company consolidated 3/1/37

TABLE 32
NIAGARA ELECTRIC SERVICE CORPORATION*

YEAR	1930	1931	1932	1933	1934	1935	1936
GROSS REVENUE(000 omitted)	1,197	1,246	1,228	1,206	1,272	1,331	1,432
ADMIN. & GEN. EXP., TOTAL	133,889	81,588	90,313	100,794	96,090		
GROUP I, TOTAL	109,665	58,538	69,835	74,565	68,931	61,358	51,670
Administrative salaries.	54,147	23,231	28,422	23,700	20,196	9,231	8,219
Other gen. office sal. .	23,390	20,198	26,536	24,042	29,099	30,413	25,927
Gen. office supp. & exp. .	11,319	1,730	2,117	2,915	3,661	4,728	3,738
Gen. stationery & print.	1,438	1,227	628	835	859	1,277	2,511
Mgt. & sup. fees & exp. .	---	---	---	---	---	---	---
Other misc. gen. exp. . .	19,371	12,152	12,130	23,073	15,116	15,709	11,275
GROUP II, LAW EXPENSES ...	7,420	8,161	8,506	8,321	7,852	12,351	7,246
GROUP III, RELIEF & WEL. WK. .	3,601	4,407	740	11,503	13,071	16,133	14,574
GROUP IV, REGULAT. COM. EXP. ---	---	---	6,061	---	---	---	2,813
GROUP V, MINOR GEN. EXP. ...	14,203	11,482	5,171	6,405	6,136		
Injuries & damages	5,860	1,668	608	2,562	1,131		
Store expense	4,942	5,501	3,028	1,957	1,838		
Transportation expense ...	1,439	2,251	---	---	---		
Undistributed adjustments.	1,156	104	32er.	105	176		
Franchise requirements ...	740	740	---	740	740		
Amortization of franchises	---	---	---	---	---		
Main. of gen. structures	64	1,218	1,240	696	1,843		
Op. of commun. system ...	---	---	327	345	408		
Main. of commun. system ..	---	---	---	---	---		

* Company lost identity 3/1/37

TABLE 33
TONAWANDA POWER COMPANY*

YEAR	1930	1931	1932	1933	1934	1935	1936
GROSS REVENUE(000 omitted) \$	1,078	1,027	\$ 927	\$ 875	\$ 884	\$ 959	\$ 1,084
ADMIN. & GEN. EXP., TOTAL	88,442	60,884	51,668	53,393	47,001		
GROUP I, TOTAL	73,523	51,340	44,176	43,288	40,044	37,979	35,510
Administrative salaries ..	29,114	23,649	20,529	17,620	13,820	11,802	10,246
Other gen. office sal. ..	21,342	15,712	15,395	13,871	15,340	14,825	13,328
Gen. office supp. & exp. ..	6,923	1,720	1,330	2,691	3,402	3,585	3,211
Gen. stationery & print. ..	2,085	884	452	483	660	708	1,873
Mgt. & sup. fees & exp. ..	---	---	---	---	---	---	---
Other misc. gen. exp. ...	14,059	9,375	6,470	8,623	6,822	7,079	6,852
GROUP II, LAW EXPENSES ...	775	757	1,053	1,746	1,230	2,437	3,778
GROUP III, RELIEF & WEL. WK.	1,984	3,818	2,532	4,002	1,805	3,558	2,575
GROUP IV, REGULAT. COM. EXP.	---	---	---	---	---	601	2
GROUP V, MINOR GEN. EXP. ...	12,160	4,969	3,907	4,357	3,922		
Injuries & damages	5,696	494	321	1,123	406		
Store expense	3,854	2,490	2,221	2,125	961		
Transportation expense ..	2,727	603	---	---	---		
Undistributed adjustments	2,698cr.	841	354	471cr.	31		
Franchise requirements ..	25	---	---	---	---		
Amortization of franchises	---	---	---	---	---		
Main. of gen. structures ..	2,556	541	779	1,359	2,232		
Op. of commun. system ...	---	---	232	221	289		
Main. of commun. system ..	---	---	---	---	---		

*Company lost identity 3/1/37

TABLE 34
NIAGARA, LOCKPORT, & ONTARIO POWER COMPANY

YEAR	1930	1931	1932	1933	1934	1935	1936	1937
GROSS REVENUE(000 omitted) \$	10,149	9,824	\$ 8,226	\$ 8,621	\$ 8,752	\$ 8,724	\$ 10,372	\$ 11,082
ADMIN. & GEN. EXP., TOTAL	597,240	477,391	449,634	466,471	498,954			
GROUP I, TOTAL	430,844	377,561	329,223	361,247	388,578	364,180	355,393	571,647
Administrative salaries ..	121,605	106,464	94,576	101,202	94,607	54,154	43,040	47,033
Other gen. office sal. ..	167,024	145,211	148,265	151,041	177,819	178,029	186,369	239,148
Gen. office supp. & exp. ..	19,601	30,569	21,904	19,438	21,255	22,357	27,451	39,656
Gen. stationery & print. ..	8,282	13,938	11,918	6,780	6,638	7,737	9,811	9,271
Mgt. & sup. fees & exp. ..	---	---	---	---	---	---	---	---
Other misc. gen. exp. ...	114,332	80,779	52,560	82,785	88,259	91,503	88,722	236,539
GROUP II, LAW EXPENSES...	32,289	33,954	25,544	25,962	31,874	43,670	27,573	53,678
GROUP III, RELIEF & WEL. WK.	19,529	26,962	22,261	39,392	23,125	45,855	43,516	42,369
GROUP IV, REGULAT. COM. EXP.	---	---	---	---	---	---	13,492	1,844
GROUP V, MINOR GEN. EXP. ...	114,578	38,914	72,606	39,871	55,376			
Injuries & damages	24,892	8,813	39,907	7,778	21,459			
Store expense	24,721	14,162	10,726	6,763	8,131			
Transportation expense ..	26,561	11,842	---	---	---			
Undistributed adjustments	17,414	4,610	6,675	3,189	4,975			
Franchise requirements ..	---	---	---	---	---			
Amortization of franchises	---	---	---	---	---			
Main. of gen. structures ..	2,627	2,678	5,157	8,460	9,654			
Op. of commun. system ...	184	---	1,979	1,920	2,176			
Main. of commun. system ..	18,179	6,804	8,162	11,761	8,981			

TABLE 39

YEAR	1930	1931	1932	1933	1934	1935	1936	1937
GROSS REVENUE(COO omitted)	\$ 7,578	\$ 8,755	\$ 7,459	\$ 6,991	\$ 7,716	\$ 7,747	\$ 7,763	\$ 9,949
ADMIN. & GEN. EXP., TOTAL..	443,711	426,237	413,203	353,445	338,124			
GROUP I, TOTAL	353,497	345,613	325,403	271,967	251,051	291,379	313,944	377,083
Administrative salaries...	83,261	85,355	58,835	49,624	40,204	71,628	77,649	86,046
Other gen. office sal...	117,545	142,359	135,932	108,585	114,361	116,948	115,346	123,749
Gen. office supp. & exp...	14,021	24,048	20,336	16,201	18,492	18,978	21,677	24,117
Gen. stationery & print...	4,077	5,317	4,258	4,531	4,346	5,369	6,264	5,626
Mgt. & sup. fees & exp...								
Other misc. gen. exp....	133,993	87,354	105,992	93,025	73,648	78,436	93,008	155,545
GROUP II, LAW EXPENSES	22,242	19,975	30,468	20,409	13,255	29,252	33,793	29,524
GROUP III, RELIEF & WEL. WK.	27,156	32,450	40,331	45,193	59,602	66,965	62,762	64,164
GROUP IV, REGULAT. COM. EXP.							1,981	3,487
GROUP V, MINOR GEN. EXP....	40,816	29,299	17,001	15,876	14,216			
Injuries & damages	2,095	1,893	2,225	1,529	1,529			
Store expense	8,115	8,264	6,682	5,348	4,064			
Transportation expense ..	13,532	9,092						
Undistributed adjustments	6,738	1,099	568cr	411	37cr.			
Franchise requirements ..	2,471	1,148	564	746	889			
Amortization of franchises								
Main. of gen. structures.	880	1,081	599	407	127			
Op. of commun. system...	6,849	6,643	7,313	6,676	7,589			
Main. of commun. system..	136	83	186	759	55			

TABLE 36

YEAR	1930	1931	1932	1933	1934	1935	1936	1937
GROSS REVENUE(000 omitted) \$	79,392 \$	76,101 \$	69,048 \$	64,489 \$	64,577 \$	78,393 \$	93,892 \$	100,502
ADMIN. & GEN. EXP., TOTAL	6,361.487	5,945.179	5,959.888	5,390.847	6,130.465			
GROUP I, TOTAL	5,034.547	4,629.092	4,606.943	4,090.730	4,332.317	4,551.990	4,760.457	6,471.176
Administrative salaries.	158,865	153,446	215,092	247,283	263,994	312,589	362,453	388,692
Other gen. office sal.	2,893.124	2,706.820	2,625.328	2,191.584	2,265.284	2,724.553	2,961.959	3,504.686
Gen. office supp. & exp.	---	851.224	844.396	1,083.690	1,220.795	1,013.682	935.146	1,527.317
Gen. stationery & print.	975.882	---	---	---	---	---	---	---
Mgt. & sup. fees & exp.	---	---	---	---	---	---	---	---
Other misc. gen. exp.	1,006.676	907.602	920.232	568.193	582.244	500.966	500.899	940.481
GROUP II, LAW EXPENSES ...	154.031	111.684	136.744	154.158	113.798	242.443	305.970	395.811
GROUP III, RELIEF & WEL. WK.	831.376	934,782	927.883	943,877	1,174,988	1,377,232	1,287,336	1,659,254
GROUP IV, REGULAT. COM. EXP.	55.738	65,842	14,844	110,649	292,800	874,843	363,418	252,796
GROUP V, MINOR GEN. EXP	285,795	183,779	273,469	91,433	216,562			
Injuries & damages	51,585	46,696	46,664	39,037	39,576			
Store expense	---	---	---	---	---			
Transportation Expense ..	---	---	---	---	---			
Undistributed Adjustments	119,556	21,463	128,390	119,051cr.	6,838cr.			
Franchise requirements ..	12,411	13,915	12,352	10,493	12,661			
Amortization of franchises	---	---	---	---	---			
Main. of gen. structures.	102,243	101,705	88,063	160,954	170,863			
Op. of commun. system ...	---	---	---	---	---			
Main. of commun. system .	---	---	---	---	---			

TABLE 37
NEW YORK AND QUEENS ELECTRIC LIGHT AND POWER COMPANY

YEAR	1930	1931	1932	1933	1934	1935	1936	1937
GROSS REVENUE(OCO omitted) \$	19,615	20,322	20,045	19,667	20,132	20,470	21,350	23,455
ADMIN. & GEN. EXP., TOTAL..	1,815,405	1,903,563	1,783,529	1,593,009	1,714,487			
GROUP I, TOTAL	1,186,354	1,290,276	1,240,133	1,104,397	1,158,719	1,150,935	1,334,861	1,823,118
Administrative salaries..	109,867	112,200	107,158	100,772	106,068	105,028	93,601	110,158
Other gen. office sal....	661,481	701,850	660,911	596,625	646,817	637,205	795,245	872,914
Gen. office supp. & exp..	250,330	303,922	287,488	252,109	272,729	295,123	305,074	278,513
Gen. stationery & print..	1,469	9,774	6,447	1,828	5,203	1,331	153	100
Mgt. & sup. fees & exp...	---	---	---	---	---	---	---	---
Other misc. gen. exp.....	163,207	162,530	178,129	153,063	127,902	112,248	140,788	561,433
GROUP II, LAW EXPENSES	45,028	32,498	54,113	67,161	30,086	36,704	63,152	65,126
GROUP III, RELIEF & WEL. WK.	236,606	276,125	281,327	233,776	250,094	309,434	373,814	368,579
GROUP IV, REGULAT. COM. EXP.	16,120	8,111	289	45,545	137,832	352,110	113,205	178,115
GROUP V, MINOR GEN. EXP....	331,297	296,553	207,667	142,130	137,757			
Injuries & damages	22,926	25,395	17,851	19,015	23,289			
Store expense	---	---	---	---	---			
Transportation expense ..	---	---	---	---	---			
Undistributed adjustments	4,941cr.	11,706	11,774	10,966	11,872			
Franchise requirements ..	---	---	---	1,722	3,535			
Amortization of franchises	---	---	---	---	---			
Main. of gen. structures..	313,312	259,452	178,042	110,426	122,825			
Op. of commun. system ..	---	---	---	---	---			
Main. of commun. system..	---	---	---	---	---			

TABLE 38
NEW YORK STATE GAS & ELECTRIC CORPORATION

YEAR	1930	1931	1932	1933	1934	1935	1936	1937
GROSS REVENUE(OCO omitted) \$	11,371	11,904	11,777	11,685	11,902	12,176	12,781	19,328
ADMIN. & GEN. EXP., TOTAL	467,454	859,954	1,194,267	1,175,249	1,317,663			
GROUP I, TOTAL	354,501	688,917	967,841	904,048	946,980	981,509	1,104,165	1,626,391
Administrative salaries..	55,679	15,380	18,925	38,810	104,965a	93,667	122,933	326,562
Other gen. office sal. .	80,344	140,437	166,510	141,915	285,336b	206,165	180,833	388,921
Gen. office supp. & exp.	38,671	35,042	43,292	53,166	9,832c	6,489	2,177	---
Gen. stationery & print..	4,605	11,484	5,969	3,005	2,633d	106,938	143,192	---
Mgt. & sup. fees & exp...	---	---	---	---	295,081	308,097	326,979	489,419
Other misc. gen. exp. .	175,202	486,574	733,245	667,146	249,083	260,153	328,051	421,489
GROUP II, LAW EXPENSES ...	30,844	47,603	90,088	71,964	100,342	85,392	243,450	214,800
GROUP III, RELIEF & WEL. WK.	20,469	21,664	59,667	101,309	102,921	101,160	104,749	483,771
GROUP IV, REGULAT. COM. EXP.	22,865	27,670	58,253	77,927	94,387	210,450	86,600	187,155
GROUP V, MINOR GEN. EXP....	38,775	74,100	13,413	20,007	113,033			
Injuries & damages	16,441	7,903	2,863	2,488	89,211			
Store expense	---	---	---	---	---			
Transportation expense ..	---	---	---	---	---			
Undistributed adjustments	---	---	---	---	---			
Franchise requirements ..	175	2,346	2,591	2,723	2,909			
Amortization of franchises	---	---	---	---	---			
Main. of gen. structures	8,500	5,119	6,042	7,156	20,913e			
Op. of commun. system ..	4,037	4,570	5,905	6,186	---			
Main. of commun. systems	2,217	1,825	1,017	1,454	---			

a. Executive department

b. Treasury and accounting departments

c. Other general office salaries

d. Other general office supplies and expenses

e. Repairs to general property

TABLE 39
PATCHAGUE ELECTRIC LIGHT COMPANY

YEAR	1930	1931	1932	1933	1934	1935	1936	1937
GROSS REVENUE(000 omitted) \$	462	489	470	448	440	411	437	472
ADMIN. & GEN. EXP., TOTAL	32,232	39,060	38,176	41,406	58,966			
GROUP I, TOTAL	26,322	35,494	30,433	32,341	44,806	46,190	51,565	44,283
Administrative salaries	2,993	705	695	6,599	8,206a	8,905	13,511	11,518
Other gen. office sal.	4,572	4,521	2,644	4,307	15,194b	11,899	10,017	13,556
Gen. office supp. & exp.	1,554	971	1,334	1,397	---	---	---	---
Gen. stationery & print.	33	211	60	97	1,579d	12,059	14,345	---
Mgt. & sup. fees & exp.	---	---	---	---	11,435	11,278	11,570	12,128
Other misc. gen. exp.	17,170	29,086	25,700	19,941	8,372	12,049	11,822	7,081
GROUP II, LAW EXPENSES ...	1,069	1,207	1,972	3,925	1,118	1,325	6,300	3,210
GROUP III, RELIEF & WEL. WK.	246	275	2,002	3,388	5,963	7,204	6,723	16,864
GROUP IV, REGULAT. COM. EXP.	---	1,651	3,123	1,189	2,062	9,360	275	475
GROUP V, MINOR GEN. EXP.	4,645	433	646	563	5,017			
Injuries & damages	484	349	328	283	4,321			
Store expense	1,961	---	---	---	---			
Transportation expense	2,132	47	---	---	---			
Undistributed adjustments	---	---	---	---	---			
Franchise requirements	---	5	---	---	---			
Amortization of franchises	---	---	---	---	---			
Main. of gen. structures	68	32	318	262	196			
Op. of commun. system	---	---	---	18	---			
Main. of commun. system	---	---	---	---	---			

a.Executive department

b.Treasury and accounting departments

c.Other general office supplies and expenses

d.

TABLE 40
JAMESTOWN MUNICIPAL PLANT

YEAR	1930	1931	1932	1933	1934	1935	1936	1937
GROSS REVENUE(000 omitted) \$	520	609	797	759	781	859	946	\$ 1,009
ADMIN. & GEN. EXP., TOTAL.	14,762	11,471	22,382	17,739	15,746			
GROUP I, TOTAL	9,437	7,721	8,299	8,235	7,949	13,333	21,440	12,670
Administrative salaries	3,000	3,000	2,962	2,874	2,679	7,320	5,454	5,777
Other gen. office sal.	1,857	1,869	2,440	2,484	2,696	3,378	3,395	3,140
Gen. office supp. & exp.	813	737	1,143	962	627	664	158	364
Gen. stationery & print.	2,794	1,130	950	552	761	886	---	---
Mgt. & sup. fees & exp.	---	---	---	---	---	---	---	---
Other misc. gen. exp.	973	985	804	1,263	1,186	1,085	12,433	3,389
GROUP II, LAW EXPENSES ...	916	2	1,778	2,124	6	91	982	1,157
GROUP III, RELIEF & WEL. WK.	---	---	---	---	---	---	---	67
GROUP IV, REGULAT. COM. EXP.	---	---	5,653	---	---	---	---	---
GROUP V, MINOR GEN. EXP.	4,408	3,748	6,652	7,380	7,791			
Injuries & damages	771	731	2,479	2,453	1,535			
Store expense	1,144	1,109	1,724	2,397	2,333			
Transportation expense	2,274	1,796	1,935	2,456	2,512			
Undistributed adjustments	94	52	435	27	36			
Franchise requirements	---	---	---	---	---			
Amortization of franchises	---	---	---	---	---			
Main. of gen. structures	126	60	79	47	1,376			
Op. of commun. system	---	---	---	---	---			
Main. of commun. system	---	---	---	---	---			

ADMINISTRATIVE AND GENERAL EXPENSES

TABLE 41
ORANGE AND ROCKLAND ELECTRIC COMPANY

YEAR	1930	1931	1932	1933	1934	1935	1936	1937
GROSS REVENUE(000 omitted) \$	720	\$ 731	\$ 734	\$ 686	\$ 703	\$ 707	\$ 725	\$ 766
ADMIN. & GEN. EXP., TOTAL	120,035	106,545	129,302	131,428	90,537			
GROUP I, TOTAL	77,546	73,909	74,702	80,404	65,430	67,328	83,547	89,062
Administrative salaries.	36,411	35,222	36,925	36,402	35,704	36,765	52,099	50,709
Other gen. office sal....	21,255	20,910	20,018	18,533	28,962	27,659	29,212	36,549
Gen. office supp. & exp.	7,739	7,227	5,039	10,450	766	1,184	1,445	920
Gen. stationery & print.	5,251	4,331	6,568	3,431	355	99	273	17
Mgt. & sup. fees & exp.	---	---	---	---	---	---	---	---
Other misc. gen. exp....	6,890	6,219	6,152	11,288	1,643	1,621	518	867
GROUP II, LAW EXPENSES ...	2,798	2,396	3,420	3,280	5,014	2,644	2,595	2,362
GROUP III, RELIEF & WEL. WK.	657	1,006	3,936	1,616	7,261	2,827	5,196	3,343
GROUP IV, REGULAT. COM. EXP.	---	873	64	---	---	20	17	13,834
GROUP V, MINOR GEN. EXP...	39,034	28,361	47,680	46,128	12,832			
Injuries & damages	289	443	1,446	732	729			
Store expense	7,659	6,373	5,817	6,309	---			
Transportation expense .	22,812	15,425	14,019	16,351	---			
Undistributed adjustments	6,175	2,809	2,938	4,430	---			
Franchise requirements .	---	---	---	---	---			
Amortization of franchises	---	---	---	---	---			
Main. of gen. structures	1,744	2,273	23,280	18,254	12,103			
Op. of commun. system ..	---	---	130	52	---			
Main. of commun. system.	355	38	50	---	---			

STATISTICAL SECTION

TABLE 42
SOLAR ELECTRIC COMPANY

YEAR	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
GROSS REVENUE	\$55,018	\$58,501	\$64,991	\$73,324	\$81,282	\$87,953	\$88,193	\$84,201	\$87,885	\$89,782	\$96,318	\$102,557
GROUP I, TOTAL	4,223	4,245	5,987	4,183	16,636	13,318	13,081	4,734	4,539	4,605	6,720	6,862
Sal. of gen. officers ...	3,000	1,724	1,530	489	702	1,111	1,152	1,152	214	217	269	384
Sal. of gen. off. clerks.	---	---	---	1,210	1,530	1,410	1,364	1,364	644	636	542	871
Gen. off. station. & prtge.	---	---	---	95	87	125	85	74	43	62	53	322
Other gen. office supplies	301	1,095	91	93	100	60	32	38	17	28	5	---
Gen. officer's expenses	---	---	---	94	41	67	60	227	35	4	12	62
Gen. off. clerk's exp....	---	---	130	72	53	38	15	5	18	18	2	61
Other gen. office exp....	---	---	1,458	164	186	244	61	44	70	97	68	---
Mgt. & sup. fees & exp...	---	---	---	---	---	---	---	---	---	---	---	---
Other general expenses ..	922	1,426	2,778	1,966	13,937	10,293	10,312	1,830	3,498	3,543	5,769	5,162
GROUP II, GEN. LAW EXPENSES	---	---	---	220	290	170	212	312	932	767	181	1,834
GROUP IV, REGULAT. COM. EXP.	---	---	1,255	680	52	11,576	9,392	1,519	7,919	3,485	12,241	10,083
TOTAL	4,223	4,245	7,242	5,083	16,978	25,064	22,685	6,565	13,390	8,857	19,142	18,779

ADMINISTRATIVE AND GENERAL EXPENSES

TABLE 43
POTOMAC ELECTRIC POWER COMPANY, WASHINGTON, D. C.

YEAR	1925	1926	1927	1928	1929	5 Yr. Aver.	1930	1931
TOTAL ...	3.95¢	3.92¢	4.35¢	4.13¢	4.04¢	4.08¢	3.52¢	4.29¢
GROUP I	3.12	3.24	3.50	3.30	3.34	3.30	2.72	3.38
GROUP II	.15	.15	.15	.15	.12	.14	.12	.13
GROUP III	.04	.05	.04	.05	.06	.05	.10	.09
GROUP IV	-	-	-	-	-	-	-	-
GROUP V	.64	.48	.66	.63	.52	.59	.58	.69

YEAR	1932	1933	1934	5 Yr. Aver.	1935	1936	1937	1938
TOTAL ...	3.97¢	4.83¢	4.08¢	4.12¢	4.93¢	6.23¢	6.41¢	6.47¢
GROUP I	3.06	3.63	3.42	3.24	3.56	4.02	4.30	4.76
GROUP II	.15	.46	.11	.20	.09	.09	.10	.13
GROUP III	.08	.14	.12	.10	.24	1.29	1.61	1.16
GROUP IV	.07	-	-	-	-	.10	.07	.10
GROUP V	.61	.60	.43	.58	1.04	.63	.33	.32

TABLE 44
BUFFALO GENERAL ELECTRIC CORPORATION

YEAR	1930	1931	1932	1933	1934	5 Yr. Aver.	1935	1936
TOTAL ...	5.81¢	5.39¢	5.55¢	4.57¢	3.98¢	5.05¢		
GROUP I	4.26	4.01	4.35	3.54	2.96	3.82	3.47	3.00
GROUP II	.30	.19	.30	.29	.19	.25	.29	.25
GROUP III	.19	.18	.22	.47	.31	.27	.59	.44
GROUP IV	-	-	-	-	-	-	-	-
GROUP V	1.06	1.01	.69	.27	.52	.71		

TABLE 45
NIAGARA ELECTRIC SERVICE CORPORATION

YEAR	1930	1931	1932	1933	1934	5 Yr. Aver.	1935	1936
TOTAL ...	11.26¢	6.65¢	7.36¢	8.37¢	7.55¢	8.25¢		
GROUP I	9.16	4.72	5.69	6.20	5.42	6.24	4.60	3.60
GROUP II	.62	.66	.70	.69	.62	.66	.93	.50
GROUP III	.30	.35	.06	.95	1.03	.54	1.21	1.01
GROUP IV	-	-	.49	-	-	.10	-	.20
GROUP V	1.18	.92	.42	.53	.48	.71		

STATISTICAL SECTION

TABLE 46
TOKAWANDA POWER COMPANY

YEAR	1930	1931	1932	1933	1934	5 Yr. Aver.	1935	1936
TOTAL ...	8.22¢	5.92¢	5.56¢	6.10¢	5.32¢	6.23¢		
GROUP I	6.85	5.00	4.76	4.94	4.53	5.22	3.96	3.27
GROUP II	.07	.07	.11	.20	.14	.12	.25	.34
GROUP III	.18	.37	.27	.46	.20	.30	.37	.23
GROUP IV	-	-	-	-	-	-	.06	-
GROUP V	1.12	.48	.42	.50	.45	.59		

TABLE 47
NIAGARA, LOCKPORT AND ONTARIO POWER COMPANY

YEAR ...	1930	1931	1932	1933	1934	5 Yr. Aver.	1935	1936	1937
TOTAL ..	5.90¢	4.86¢	5.45¢	5.42¢	5.69¢	5.47¢			
GROUP I	4.26	3.84	4.00	4.20	4.44	4.15	4.17	3.43	5.15
GROUP II	.32	.35	.31	.30	.36	.33	.50	.26	.49
GROUP III	.19	.27	.27	.46	.26	.29	.51	.41	.38
GROUP IV	-	-	-	-	-	-	-	.13	.02
GROUP V	1.13	.40	.88	.46	.63	.70			

TABLE 48
NIAGARA FALLS POWER COMPANY

YEAR	1930	1931	1932	1933	1934	5 Yr. Aver.	1935	1936	1937
TOTAL ...	5.85¢	4.87¢	5.54¢	5.06¢	4.37¢	5.13¢			
GROUP I	4.66	3.94	4.35	3.90	3.25	4.02	3.76	4.05	3.80
GROUP II	.29	.23	.41	.29	.17	.28	.38	.43	.30
GROUP III	.36	.37	.54	.64	.77	.53	.86	.80	.64
GROUP IV	-	-	-	-	-	-	-	.02	.03
GROUP V	.54	.33	.24	.23	.18	.30			

TABLE 49
CONSOLIDATED EDISON COMPANY

YEAR	1930	1931	1932	1933	1934	5 Yr. Aver.	1935	1936	1937
TOTAL ...	8.01¢	7.81¢	8.62¢	8.35¢	9.49¢	8.45¢			
GROUP I	6.34	6.09	6.66	6.35	6.70	6.43	5.80	5.07	6.44
GROUP II	.19	.15	.20	.24	.18	.19	.31	.32	.39
GROUP III	1.05	1.24	1.34	1.46	1.83	1.38	1.75	1.37	1.65
GROUP IV	.07	.09	.02	.16	.45	.16	1.11	.39	.25
GROUP V	.36	.24	.40	.14	.33	.29			

TABLE 50
NEW YORK AND QUEENS ELECTRIC LIGHT AND POWER COMPANY

YEAR	1930	1931	1932	1933	1934	5 Yr. Aver.	1935	1936	1937
TOTAL ...	9.41¢	9.36¢	8.90¢	8.11¢	8.45¢	8.34			
GROUP I	6.13	6.35	6.20	5.63	5.70	6.00	5.60	6.25	7.80
GROUP II	.23	.16	.27	.34	.14	.23	.18	.29	.28
GROUP III	1.24	1.36	1.40	1.19	1.27	1.29	1.51	1.75	1.57
GROUP IV	.08	.04	-	.23	.67	.20	1.72	.58	.76
GROUP V	1.73	1.46	1.04	.72	.67	1.12			

TABLE 51
NEW YORK STATE GAS AND ELECTRIC CORPORATION

YEAR	1930	1931	1932	1933	1934	5 Yr. Aver.	1935	1936	1937
TOTAL ...	4.12¢	7.22¢	10.17¢	10.09¢	11.15¢	8.56¢			
GROUP I	3.13	5.79	8.24	7.75	8.03	6.60	8.10	8.70	8.40
GROUP II	.27	.40	.77	.62	.84	.58	.70	1.90	1.10
GROUP III	.18	.18	.51	.87	.87	.52	.83	.82	2.50
GROUP IV	.20	.23	.50	.67	.46	.41	1.74	.68	.97
GROUP V	.34	.62	.15	.17	.95	.45			

TABLE 52
PATCHOGUE ELECTRIC LIGHT COMPANY

YEAR	1930	1931	1932	1933	1934	5 Yr. Aver.	1935	1936	1937
TOTAL ...	6.98¢	8.00¢	8.15¢	9.24¢	13.42¢	9.16¢			
GROUP I	5.69	7.26	6.50	7.20	10.20	7.37	11.20	11.80	9.40
GROUP II	.23	.25	.42	.88	.25	.41	.32	1.40	.68
GROUP III	.05	.06	.43	.76	1.36	.53	1.76	1.53	3.58
GROUP IV	-	.34	.66	.27	.47	.35	2.28	-	.01
GROUP V	1.01	.09	.14	.13	1.14	.50			

TABLE 53
ORANGE AND ROCKLAND ELECTRIC COMPANY

YEAR	1930	1931	1932	1933	1934	5 Yr. Aver.	1935	1936	1937
TOTAL ...	16.69¢	14.57¢	17.72¢	19.15¢	12.88¢	16.20¢			
GRP. I	10.80	10.10	10.22	11.70	9.30	10.42	9.50	11.50	11.60
GRP. II	.39	.33	.47	.48	.71	.48	.37	.36	.31
GRP. III	.09	.14	.54	.24	1.04	.41	.39	.72	.44
GRP. IV	-	.12	.01	-	-	.02	-	-	1.81
GRP. V	5.41	3.88	6.50	6.73	1.83	4.87			

TABLE 54
JAMESTOWN MUNICIPAL PLANT

YEAR	1930	1931	1932	1933	1934	5 Yr. Aver.	1935	1936	1937
TOTAL ...	2.84¢	1.88¢	2.80¢	2.34¢	2.02¢	2.37¢			
GROUP I	1.81	1.27	1.04	1.09	1.02	1.24	1.55	2.26	1.26
GROUP II	.18	-	.22	.28	-	.14	.01	.10	.12
GROUP III	-	-	-	-	-	-	-	-	.01
GROUP IV	-	-	.71	-	-	.14	-	-	-
GROUP V	.85	.61	.83	.98	1.00	.85	-	-	-

TABLE 55
SOLAR ELECTRIC COMPANY

YEAR ...	1926	1927	1928	1929	1930	1931	1932
TOTAL ..	7.50¢	7.25¢	11.13¢	6.93¢	20.92¢	28.14¢	25.79¢
GROUP I	7.50	7.25	9.20	5.70	20.50	15.10	14.90
GROUP IV	-	-	1.93	.30	.06	13.15	10.65
GROUP II	-	-	-	.93	.36	.13	.24

YEAR ...	1933	1934	5 Yr. Aver.	1935	1936	1937
TOTAL ..	7.79¢	15.25¢	19.64¢	9.87¢	19.94¢	18.31¢
GROUP I	5.61	5.17	12.26	5.12	7.00	6.69
GROUP IV	1.81	9.02	6.94	3.89	12.75	9.83
GROUP II	.37	1.06	.44	.86	.19	1.78

TABLE 56

COMPARISON OF THE AMOUNT SPENT FOR DEPARTMENT SUPERINTEND-
ENT'S ACCOUNTS IN TOTAL AMOUNTS & CENTS PER DOLLAR OF
GROSS REVENUE -- YEAR 1930

Name....	Potomac Electric Power Company	Buffalo General Electric Company	Niagara Electric Service Corporation
Prod....	\$ 16,531 .16¢	\$ 38,850 .28¢	---
Trans....	---	34,290 .25	---
Distrib. 119,271	1.14	73,907 .53	\$29,816 2.50¢
Comm'l.. 101,318	.97	33,843 .24	6,178 .52
New Bus. 29,325	.28	152,582 1.09	17,105 1.43
Total.....	2.55¢	2.39¢	4.45¢
Admin.&Gen.....	3.53	5.25	11.00
	6.08¢	7.64¢	15.45¢

Name....	Tonawanda Power Co.	Nia., Lockport & Ont. Pow. Co.	Niagara Falls Power Company
Prod....	---	\$ 10,610 .10¢	\$24,006 .32¢
Trans....	---	38,446 .38	6,778 .09
Distrib. \$ 25,146	2.34¢	115,129 1.14	180 .002
Comm'l.. 963	.09	18,084 .18	5,664 .075
New Bus. 7,906	.74	53,220 .53	19,148 .25
Total.....	3.17¢	2.33¢	.73¢
Admin.&Gen.....	7.52	5.85	5.85
	10.69¢	8.18¢	6.58¢

Name....	Consolidated Edison Co.	N.Y.&Queens Elec. Light & Power Co.	New York State Gas & Electric Corp.
Prod....	\$214,096 .27¢	---	\$171,601 1.51¢
Trans....	---	---	67,554 .57
Distrib. 472,373	.6	\$420,951 2.14¢	215,489 1.9
Comm'l.. 144,084	.19	32,722 .17	136,886 1.2
New Bus. 1,311,611	1.65	399,147 2.04	265,781 2.34
Total.....	2.71¢	4.35¢	7.52¢
Admin.&Gen.....	7.97	9.25	3.70
	10.68¢	13.60¢	11.22¢

Name....	Patchague Elec. Light Co.	Orange & Rock- land Elec. Co.
Prod....	\$ 5,994 1.3 ¢	\$ 6,700 .93¢
Trans....	24 .005	---
Distrib. 13,904	3.1	13,678 1.9
Comm'l.. 6,473	1.4	---
New Bus. 10,655	2.31	---
Total.....	8.11¢	2.83¢
Admin.&Gen.....	6.45	16.60
	14.56¢	19.43¢

APPENDIX A, PART 1

Old Uniform Classification of Accounts,
New York State and District of
Columbia

780. GENERAL AND MISCELLANEOUS EXPENSES

Group I 781.1 General Office Salaries
781.11 Administrative Salaries

This account shall include the salaries of the chairman of the board, president, vice-president, treasurer, secretary, comptroller, general auditor, general manager, assistant general manager, chief engineer, general superintendent, purchasing agent, and all other employees whose jurisdiction extends to the entire system and whose services cannot be allocated to the several departments.

Group I 781.12 Other General Office Salaries

This account shall include the salaries of auditors, bookkeepers, cashiers, paymasters, stenographers, clerks employed in counting cash, janitors, porters, messengers, and other clerks and employees whose time is devoted to the work of the general office.

Note - The cost of labor of clerks and other employees in the commercial department shall not be included in this account, but in account No. 761, "Commercial Administration," or the appropriate sub-division thereof.

Group I 781.21 General Office Supplies and Expenses

This account shall include the cost of office supplies, stationery, telegrams, telephone service, and the maintenance of office furniture, rental of office equipment, such as statistical machines, and all other miscellaneous expenses of general offices. Minor rents may be included. (See General Expense Account No. 781.51, "Rentals.")

Expenses of departmental employees should be charged to the appropriate departmental accounts.

Group I 781.22 General Stationery and Printing

This account shall include the cost of stationery, stationery supplies and postage not elsewhere provided for.

Note A - The cost of printing briefs and other legal papers should be charged to account No. 781.26, "Law Expense."

Note B - The cost of printing signs, posters and other advertising matter should be charged to account No. 771.25, "Advertising Supplies and Expenses."

Note C - The cost of such mechanical calculators, typewriters, duplicating machines, and other office appliances as are not properly capitalized, should, if for use in general office, be charged to account No. 781.21, "General Office Supplies and Expenses," or, if for the use of department offices, to the proper departmental accounts.

Group V 781.23 Maintenance of General Structures

This account shall include the cost of maintaining general office buildings or other structures used for general purposes. This covers maintenance of walks, driveways, and grounds connected therewith, and all incidental expenses connected with the maintenance of such buildings or structures.

Group V 781.24 Operation of Communication System

This account shall include the pay and expenses of superintendent and assistants, and of clerks, patrolmen, testers and inspectors, the cost of all supplies for and other expenses incurred in connection with the operation of the accounting company's communication system. This will include salaries and wages of employees at the main exchange, also the salaries and wages of employees in general offices operating switchboards on main line telephone systems not owned by the accounting company.

Note - Salaries and wages of telephone and telegraph operators in power plants, sub-stations, stores, commercial offices and at other points in the accounting company's system shall be charged to the appropriate operating account at the location involved and not to this account.

Group V 781.25 Maintenance of Communication System

This account shall include the cost of maintaining all telephone, telegraph and wireless buildings and other structures and equipment, the investment in which is carried in or classified under fixed capital accounts Nos. 512g-4, "Communication System Structures," and 344e, "Telephone, Telegraph and Wireless System."

Note - Include in this account only such charges in connection with hydro-electric production as are not included in account No. 708.26, "Maintenance of Telephone System."

Group II 781.26 Law Expenses

This account shall include all law expenses such as salaries and expenses of counsel, solicitors and attorney, their clerks and attendants and expenses of their offices; cost of law books, printing briefs, legal forms, testimony, reports, etc.; fees and retainers for services of attorneys not regular employees; court costs and payments of special notarial and witness fees not provided for elsewhere, expenses connected with taking depositions and all law and court expenses not provided for elsewhere.

Not Included 781.27 Insurance

This account shall include premiums paid for fire, fidelity, boiler, casualty, burglary, lightning, and all other insurance; also charges by which self-insurance is provided.

This account shall be credited with dividends paid or surplus returned to the accounting company in any other form by mutual insurance companies.

Note - That portion of the premium for liability insurance based on the payroll expended on construction accounts may be charged to the construction accounts affected.

Group V 781.28 Store Expenses

This account shall include all salaries and expenses in connection with storerooms. This covers the cost of sending materials and supplies from general storerooms to branch storerooms and the collection of scrap material.

To this account shall be credited all discounts recovered through the prompt payment of bills for materials and supplies consumed in operation, unless such discounts are applied to the particular bills.

Note - Expenses charged to this account may be distributed over materials passed through the stores department on the basis of a percentage of invoice cost of such materials, or other bases deemed appropriate by the management of the accounting company. Amounts so distributed should be credited to this account and charged to the accounts to which the cost of such materials is charged as they are issued or used. Credits should be made in such detail as to permit the accounting company to analyze them.

Group V 781.29 Transportation Expense

This account shall include the cost of feed, keep and shoeing of horses, wages of stablemen, hostlers, veterinary expenses, and all

other expenses of stabling horses; also wages of garage men, cost of gasoline, lubricants, and other garage supplies, and the cost of repairing harness and vehicles.

Note A - The cost of horses purchased to replace others should be charged to account No. 344, "General Equipment."

Note B - Charges to this account may be distributed to the work done by the stable and garage equipment on the basis of hourly rates, rates per ton mile hauled, or other bases deemed appropriate by the management of the accounting company. Amounts so distributed should be credited to this account and charged to the account representing the construction or operation benefited. Credits should be made in such detail as to permit the accounting company to analyze them.

Group V 781.30 Undistributed Adjustments

At least once a year an inventory of materials and supplies should be taken and the difference in respect of any particular class of materials and supplies between the ledger and inventory balances should be debited or credited to this account in case it cannot be assigned to a specific account.

This account shall also be charged or credited with miscellaneous minor operating items of such a nature that an exact distribution among the accounts to which they are applicable cannot be determined. This covers such transactions as receipts from sale of junk.

Note - Where materials and supplies have been used in construction as well as in operation a suitable proportion of the shortages or overages disclosed by the inventory may be debited or credited to account No. 356, "Miscellaneous Construction Expenditures."

Not Included 781.31 Rentals

Charge to this account all rentals paid and expenses incurred for buildings or space used for the purposes of the business, unless the premises are used solely for construction purposes or in connection with a clearing or apportionment account, in which latter events the rentals should be charged accordingly.

Note - If the accounting company so desires, these rentals may be charged to the departmental account interested, such as production, transmission, distribution, commercial, new business, or miscellaneous general expenses.

GROUP I 781.52 OTHER MISCELLANEOUS GENERAL EXPENSES

This account shall include the cost of publishing and distributing annual reports to stockholders, advertising notices of stockholders' meetings, dividend notices and other corporate and financial notices of a general character, association dues, contributions for conventions and meetings of the industry, cost of experimental work conducted for the benefit of the industry or the improvement of service, traveling and incidental expenses of general officers and other general office employees, fees of transfer agents, registrars of stock, and fiscal agents, directors' fees, compensation to management corporations, and other miscellaneous expenses connected with the general management not otherwise provided for.

NOT INCLUDED 782 RETIREMENT EXPENSE

This account shall include such amounts, in addition to appropriations from surplus to retirement reserve, as the accounting company may determine to be necessary to provide a reserve against which may be charged the original cost of all property retired from service plus the cost of dismantling, less salvage. The amounts charged to this account, or appropriated from surplus, and credited to the "Retirement Reserve" shall be in addition to the necessary costs of keeping the plant and equipment in a high state of efficiency through charges to the regular maintenance accounts.

Note - It is the intent of the classification that a reserve shall be provided, either through retirement expense or by appropriations from surplus or both, sufficient to cover all retirement losses that may reasonably be expected.

GROUP V 785 INJURIES AND DAMAGES 785.1 CLAIM DEPARTMENT EXPENSES

This account shall include salaries and expenses of claim agents, investigators, adjusters, and others engaged in the investigation of accidents and adjustment of claims.

785.2 MEDICAL EXPENSES

This account shall include salaries, fees, and expenses of surgeons and doctors, hospital attendants, nursing, medical and surgical supplies, fees and expenses of coroners and undertakers; and contributions to hospitals.

785.3 INJURIES TO EMPLOYEES

This account shall include amounts paid in settlement of claims of employees for injuries arising in their employment; also wages paid to disabled employees while off duty.

783.4 OTHER PERSONAL INJURIES AND PROPERTY DAMAGE

This account shall include amounts paid in settlement of claims of persons other than employees for personal injuries sustained in connection with the operation of the plant and amounts paid in settlement of claims for damage to property not owned by the accounting company.

783.5 MISCELLANEOUS ACCIDENT EXPENSES

This account shall include all expenses in connection with accidents and damages not provided for in the foregoing accounts.

Note - If it so desires, the accounting company may charge each month to "Injuries and Damages" (or to the appropriate sub-accounts) and credit to account No. 252, "Casualty and Insurance Reserve," a proportion of the total amount estimated to be necessary to expend during the year for injury and damage claims, and the actual disbursements above designated shall then be charged against said reserve account. The charges to this account shall be adjusted at the close of the fiscal year to actual expenses unless a balance remains representing liability for unsettled claims.

GROUP IV 784 REGULATORY COMMISSION EXPENSE

This account shall include the expenses incurred by the accounting company in its transactions with governmental regulative commissions. This covers fees and retainers and expenses of counsel, solicitors, attorneys, clerks, attendants, witnesses, and others whose services are secured especially for the defense or prosecution of those petitions presented to a regulatory commission that affect the accounting company; the pay, traveling, and other expenses of those specially employed or assigned to ascertain the value of property owned or used by the accounting company; the cost of stationery and printing and engineering supplies consumed; and other necessary expenses of a similar character.

This account does not include expenses for improvement of service, for additional inspection, etc., which are made necessary by the rules, regulations, or orders of a regulatory commission. Such expenses should be charged to the appropriate specific operating expense account.

Note - Expenses incident to the sale of issue of securities should not be charged to this account but to the appropriate discount account. (See "Balance Sheet Accounts - General Instructions and Definitions," Section 12, page 7.)

GROUP III 785 RELIEF AND WELFARE WORK
785.1 EMPLOYEES' WELFARE DEPARTMENT

This account shall include all salaries and expenses incurred in conducting accident prevention, relief, and welfare departments; also contributions made to such departments.

785.2 PENSIONS

This account shall include all pensions paid to retired employees and all expenses in connection therewith.

GROUP V 786 FRANCHISE REQUIREMENTS

This account shall include the value at the normal selling price of all current and materials and supplies furnished municipal corporations in compliance with franchise requirements and for which no payment is received by the accounting company; also all direct expenses incurred in compliance with such requirements for which no reimbursement is received by the accounting company.

Amounts charged to this account for which there is no direct money outlay shall be credited to account No. 790, "Duplicate Miscellaneous Charges - Cr."

GROUP V 787 AMORTIZATION OF FRANCHISES

This account shall include for each accounting period the amount charged to distribute the cost of limited franchises equitably over their lives. Amounts charged to this account shall be concurrently credited to fixed capital account No. 302, "Franchises."

NOT INCLUDED 788 ELECTRIC EXPENSES TRANSFERRED - CR.

This account shall include such part of the operating costs (other than production expenses, for which see Production Account No. 715, "Production Expenses Transferred - Cr.") borne in the first instance by the accounting company's electric department as are properly chargeable to another coordinate department, such as an electric railway or gas department.

This is not intended to prohibit the apportioning of primary accounts between departments, and so far as practicable departmental costs should be determined in that way. There may, however, be cases where it is desirable to assign to other operations a flat percentage of total electric operating expenses or of some group of electric operating expenses or some similar arbitrary account, and in such cases the credit should be made to this account.

NOT INCLUDED 789 JOINT OPERATING EXPENSES - CR.

When any plant of equipment is maintained or operated by the accounting company for the joint benefit of itself and others under an

arrangement for apportioning the operating expenses, the portion of such expenses chargeable to others under the arrangement may be credited to this account if it is based on a percentage of the total operating expenses or a percentage of the total of some group of primary operating expense accounts or determined in some similar fashion. So far as practicable, joint operating costs should be apportioned by primary accounts and that part of such cost borne in the first instance by the accounting company, but chargeable to the other party or parties to the joint agreement, should be credited directly to the primary accounts involved.

NOT INCLUDED 790 DUPLICATE MISCELLANEOUS CHARGES - CR.

This account shall include the concurrent credits for all charges which may be made to any operating expense account, except as provided for in account No. 714, "Duplicate Production Charges - Cr.," in respect of the consumption of electric energy produced or purchased primarily for resale by the accounting company; also all similar charges in respect of any services rendered for which there is no direct money outlay. This covers such items as current supplied to a municipality without charge in accordance with franchise requirements; current furnished to employees in lieu of wages, housing of employees as part compensation for their services, etc.

This account is optional to the extent that charges of the sort described, not involving any direct money outlay, are not required to be made. If the accounting company desires to make such charges, however, the concurrent credit must be to this account.

NEW CLASSIFICATION

ADMINISTRATIVE AND GENERAL EXPENSES

GROUP I 790 SALARIES OF GENERAL OFFICERS AND EXECUTIVES

A. This account shall include the compensation (salaries, bonuses, and other consideration for service) of officers and executives of the utility, properly chargeable to electric operations and not chargeable directly to a particular electric function.

B. This account may be subdivided in accordance with the utility's administrative organization, such as executive, accounting, treasury, legal, etc.

Note - This account shall not include directors' fees paid to officers and executives.

GROUP I 791 OTHER GENERAL OFFICE SALARIES

A. This account shall include the compensation (salaries, bonuses, and other consideration for services) of employees engaged in the general or divisional offices properly chargeable to electric operations and not chargeable directly to a particular electric function.

B. This account may be subdivided in accordance with the utility's administrative organization, such as executive, accounting, treasury, legal, etc.

GROUP I 792 EXPENSES OF GENERAL OFFICERS AND GENERAL OFFICE EMPLOYEES
792.1 EXPENSES OF GENERAL OFFICERS

A. This account shall include the expenses incurred for the benefit, of the utility in its electric operations by the officers whose salaries are included in account 790 and which are not chargeable directly to a particular function.

B. This account may be subdivided in accordance with the utility's administrative organization, such as executive, accounting, treasury, legal, etc.

ITEMS

1. Hotel
2. Meals, including payment therefor on account of overtime work.
3. Membership fees and dues in trade, technical, and professional associations.
4. Traveling expenses.

GROUP I 792.2 EXPENSES OF GENERAL OFFICE EMPLOYEES

A. This account shall include the expenses incurred for the benefit of the utility in its electric operations by employees whose salaries are included in account 791 and which are not chargeable directly to a particular electric function.

B. This account may be subdivided in accordance with the utility's administrative organization, such as executive, accounting, treasury, legal, etc.

ITEMS

1. Hotel
2. Meals, including payment therefor on account of overtime work.
3. Membership fees and dues in trade, technical, and professional associations.
4. Traveling expenses

GROUP I 793 GENERAL OFFICE SUPPLIES AND EXPENSES

A. This account shall include the cost of office supplies and office expenses in connection with the general administrative functions of the utility's electric operations.

B. This account may be subdivided in accordance with the utility's administrative organization, such as executive, accounting, treasury, legal, etc.

ITEMS

1. Automobile service, including charges through clearing Account 903, Transportation Expenses - Clearing.
2. Books and periodicals for office use.
3. Building service (not including rent).
4. Communication service.
5. Office supplies.
6. Postage.
7. Printing.
8. Stationery.

Note - Office expenses which are clearly applicable to any group of operating expenses other than administrative and general shall not be included in this account.

GROUP I 794 MANAGEMENT AND SUPERVISION FEES AND EXPENSES

A. This account shall include amounts payable by the electric department to any corporation, firm, or individual for general supervision and management services and expenses.

B. Records supporting this account shall be so kept as to show (1) the basis of each fee, (2) the amount of the fee, and (3) the person to whom the fee is paid or payable.

GROUP I 795 SPECIAL SERVICES

This account shall include amounts payable to any corporation, firm, or individual, other than officers and employees of the utility, for special services to the electric department, if the amounts are not includible in Account 794, Management and Supervision Fees and Expenses, or Account 796, Legal Services, or are not chargeable directly to other electric operating expense accounts or clearing or plant accounts.

ITEMS

- | | |
|-----------------------------|----------------|
| 1. Services: | 2. Expenses: |
| (a) Auditing and accounting | (a) Hotel |
| (b) Budget | (b) Meals |
| (c) Personnel | (c) Printing |
| (d) Publication | (d) Stationery |
| (e) Rates | (e) Traveling |
| (f) Secretarial | |
| (g) Statistical | |
| (h) Supervisory | |

GROUP II 796 LEGAL SERVICES

This account shall include amounts payable to any corporation, firm, or individual, other than officers and employees of the utility, for legal services and related expenses of the electric department which are not chargeable directly to Account 797, Regulatory Commission Expenses, or to other electric operating expense accounts or to clearing or plant accounts.

Note - Pay and expenses of the legal staff of the utility shall not be included herein, but in such other accounts as may be appropriate.

GROUP IV 797 REGULATORY COMMISSION EXPENSES

A. This account shall include all expenses (except pay of regular employees only incidentally engaged in such work), properly includible in electric operating expenses, incurred by the utility in connection with formal cases before regulatory commissions, or other regulatory bodies, or cases in which such a body is a party, including payments made to a regulatory commission for fees assessed against the accounting utility for pay and expenses of such commission, its officers, agents, and employees, and also including payments made to the United States for the administration of the Federal Power Act.

B. Amounts of regulatory commission expenses which by approval or direction of the Commission are to be spread over future periods shall be charged to Account 146, OtherDeferred Debits, and amortized by charges to this account.

C. The utility shall be prepared to report the cost of each formal case.

ITEMS

1. Salaries, fees, retainers, and expenses of counsel, solicitors, attorneys, accountants, engineers, clerks, attendants, witnesses, and others engaged in the prosecution of, or defense against, petitions or complaints presented to regulatory bodies, or in the valuation of property owned or used by the utility in connection with such cases.
2. Expenses: engineering supplies, office expenses, payments to public service or other regulatory commissions, stationery and printing, traveling expenses, and other expenses incurred directly in connection with formal cases before regulatory commissions.

Note A - Exclude from this account and include in other appropriate operating expense accounts, expenses incurred in the improvement of service, additional inspection, or rendering reports, which are made necessary by the rules and regulations, or orders, or regulatory bodies.

Note B - Do not include in this account amounts includible in Account 302, Franchises and Consents, Account 140, Unamortized Debt Discount and Expense, or Account 151, Capital Stock Expense.

GROUP III 800 EMPLOYEES' WELFARE EXPENSES AND PENSIONS
800.1 EMPLOYEES' WELFARE EXPENSE

This account shall include the expenses incurred in conducting employees' accident prevention, educational and recreational activities, the cost of employees' relief and benefits (other than pensions, and injuries and damages chargeable to Account 799, Injuries and Damages), and the cost of life insurance for employees where the utility is not the beneficiary.

Note - When the utility is the beneficiary of insurance on officers or employees, the cost of such insurance shall be charged to Account 538, Miscellaneous Income Deductions, or, at the option of the utility, the cash surrender value may be included in Account 133, Other Current and Accrued Assets, in which event the excess of cost of the insurance over such cash surrender value shall be charged to Account 538, Miscellaneous Income Deductions.

800.2 PENSIONS

A. This account shall include pensions paid to retired employees or to their heirs.

B. If the utility has definitely undertaken by contract to pay pensions to employees of its electric department when retired, it shall charge to this account monthly amounts to provide for the payment of such pensions or for the purchase of annuities for that purpose.

C. The utility shall maintain a complete record of the computations of the accruals of its pension liabilities.

D. The utility shall inform the Commission of the details of its pension plan, giving a full statement of the facts thereof, together with the actuarial formula, if any, under which it has created or proposes to create its pension fund, and shall furnish a copy of the declaration of trust or resolution under which the pension plan is established.

GROUP I 801 MISCELLANEOUS GENERAL EXPENSES

This account shall include such items of expense applicable to the electric department as the cost of publishing and distributing annual reports to stockholders; advertising notice of stockholders' meetings; dividend and other corporate and financial notices of a general character; association dues; contributions for conventions and meetings of the industry; cost of research and experimental work conducted for the benefit of the electric department or the industry or for the improvement of electric service (except such amounts as may be properly chargeable to other accounts); fees of transfer agents, registrars of stock, and fiscal agents; director's fee; and any other miscellaneous expenses connected with the general managements and otherwise provided for.

GENERAL ADMINISTRATIVE EXPENSE ACCOUNTS

Pennsylvania, 1936

GROUP I 512 SALARIES OF GENERAL OFFICERS

Charge to this account the salaries of officers employed by the utility whose jurisdiction extends over its entire business and whose services are not chargeable to any particular department.

In the charges to this account include the salaries of the president, vice-president, general manager, secretary, treasurer, comptroller, general auditor, etc.

The records supporting the entries to this account shall be so kept that the utility can furnish information as to the amount of each officer's salary.

GROUP I 513 SALARIES OF GENERAL OFFICE CLERKS

Charge to this account the salaries of clerks who are employed by the utility in its general office and whose services are not directly chargeable to any particular department.

In the charges to this account include the salaries of the general office auditors, bookkeepers, cashiers, paymasters, stenographers, and other clerks connected with the general office.

The records supporting the entries to this account shall so be kept that the utility can furnish information as to the amount of each clerk's salary.

GROUP I 514 GENERAL OFFICE STATIONERY AND PRINTING

Charge to this account the cost of stationery and printing used in the general office, except that which is used on work chargeable to particular departments.

In the charges to this account include the cost of blank books, letter paper, envelopes, printed forms, postage, carbon paper, blotters, and like items.

GROUP I 515 OTHER GENERAL OFFICE SUPPLIES

Charge to this account the cost of office supplies used in the general office, except those which are used on work chargeable to particular departments.

In the charges to this account include the cost of ink, ink-stands, pens, penholders, pencils, paper clips and fasteners, pins, typewriter ribbons, waste baskets, and like items.

GROUP I 516 GENERAL OFFICERS' EXPENSES

Charge to this account the amount of expenses incurred for the benefit of the utility by its officers whose jurisdiction extends over the entire business and whose services are not chargeable to any particular department.

In the charges to this account include traveling, hotel and like necessary expenses incurred by the president, vice-presidents, general manager, secretary, treasurer, comptroller, general auditor, etc., while they are engaged in performing services for the utility.

The records supporting the entries to this account shall be so kept that the utility can furnish information as to the amount and nature of each officer's expenses.

GROUP I 517 GENERAL OFFICE CLERKS' EXPENSES

Charge to this account the amount of expenses incurred for the benefit of the utility by clerks who are employed in its general office and whose services are not directly chargeable to any particular department.

In the charges to this account include traveling, hotel, and like necessary expenses incurred by the general office auditors, bookkeepers, cashiers, paymasters, stenographers, and other clerks connected with the general office while they are engaged in performing services for the utility.

The records supporting the entries to this account shall be so kept that the utility can furnish information as to the amount and nature of each clerk's expenses.

GROUP II 518 GENERAL LAW EXPENSES

Charge to this account all general law expenses incurred by the utility.

In the charges to this account include the pay and expenses of counsel, solicitors, and attorneys, their clerks and attendants, and the expenses of their officers if they are employed exclusively by the utility; fees paid to legal advisers not regular employees of the utility; cost of printing briefs, legal forms, testimony, reports, etc.; payments to arbitrators of disputed questions; payments of special fees, notarial fees, and witness fees not elsewhere provided for; expenses connected with taking depositions, court costs, and like expenses.

Exclude from this account all expenses incurred in connection with the defense and settlement of damage claims.

If the utility has a law department, it shall so keep the records supporting the entries to this account that it can furnish separate information as to the salaries, the supplies, and expenses thereof charged to this account.

GROUP I 520 OTHER GENERAL OFFICE EXPENSES

Charge to this account expenses not provided for elsewhere, incurred for the benefit of the utility in connection with its general office.

In the charges to this account include the cost of light, heat, telephone, telegrams, messenger and janitor services, newspapers, periodicals, ice, drinking water, laundry, and like expenses.

GROUP IV 536 PUBLIC SERVICE COMMISSION EXPENSE

Charge to this account expenses incurred by the utility in its transactions with The Public Service Commission.

In the charges to this account include fees and retainers and expenses of counsel, solicitors, attorneys, clerks, attendants, witnesses, and others whose services are secured for the defense or prosecution of those petitions presented to The Public Service Commission that affect the utility; the pay, traveling and other expenses of those specially employed or assigned to ascertain the value of property owned or used by the utility; the cost of stationery and printing and engineering supplies consumed; and other necessary expenses.

Exclude from this account and charge to the appropriate specific operating expense account those expenses, such as improvement of service and additional inspection, etc., which are made necessary by the rules, regulations, or orders of The Public Service Commission.

The records supporting the entries to this account shall be so kept that the utility can furnish information as to the amount and nature of each charge to this account.

GROUP I 541 OTHER GENERAL EXPENSE

Charge to this account all general expenses not provided for elsewhere.

In the charges to this account include the cost of publishing annual reports, advertising notices of stockholders' meetings, dividend notices, other corporate and financial notices; association dues, subscriptions, fees of transfer agents, registrars of stock and fiscal agents, and like expenses.

GROUP V 537 INJURIES AND DAMAGES

Charge to this account all expenses incurred by the utility for injuries to its employees and other persons and for damages to the property of others when such injuries and damages are caused by its electric operations.

In the charges to this account include the amount of awards of courts or other lawful authority, such as workmen's compensation boards,

etc.; of all allowances by the utility itself for damages to or destruction of property other than that owned by the utility, and for injuries and deaths of employees and other persons. In addition include such items of expense as contributions to hospitals, transportation of injured persons, fees of physicians and surgeons, or, if regularly employed by the utility, a proportion of their salaries and expenses, nurses and hospital charges, cost of medical and surgical supplies, expenditures for funeral and burial services, the salaries of the utility's claim agents and adjusters and their assistants while engaged in settling damage, injury, or death claims which are caused by its electric operations, the compensation of the solicitor or counsel while engaged in attending to law suits which develop from such claims and all court costs connected therewith paid by the utility.

APPENDIX B
METHOD OF APPORTIONING JOINT EXPENSES
BUFFALO GENERAL ELECTRIC COMPANY

Supervisory and advisory fees of Buffalo General Electric Company by calendar years for period July 1, 1926, to July 31, 1929.

	July-Dec. 1926	Year 1927	Year 1928	Jan.-July 1929	Total for period					
	\$ of total	\$ of total	\$ of total	\$ of total	\$ of total					
Charged to expenses:										
Production expense	4.39	\$9,679.52	5.15	\$1,673.61	5.16	\$1,432.61	7.17	\$25,793.44	5.45	\$101,579.38
Transmission expense	4.39	9,679.52	5.15	31,673.82	5.16	34,432.62	7.17	25,793.44	5.45	101,579.40
Distribution expense	4.39	9,679.52	5.15	31,673.80	5.16	34,432.63	7.17	25,793.44	5.45	101,579.39
Utilization expense	4.39	9,679.54	5.15	31,673.86	5.16	34,432.63	7.17	25,793.44	5.45	101,579.47
New Business expense	20.00	44,116.57	15.00	32,288.79	15.00	100,132.33			12.70	296,537.69
General and misc. expense	34.52	87,410.73	46.37	265,333.50	46.31	393,828.94	95.64	210,968.48	47.36	893,124.61
Total charged to expenses	77.18	170,285.78	81.57	504,337.58	82.65	747,691.46	87.32	314,142.84	82.46	1,155,396.94
Total capitalized	22.82	50,337.39	18.43	110,940.97	17.35	167,857.13	12.68	45,616.12	17.54	358,125.92
Total supervisory and ad. fees	100.00	220,552.45	100.00	615,258.55	100.00	657,946.80	100.00	399,758.66	100.00	1,853,148.86

The method used by the company in distributing the total charged to the various accounts was as follows:

A distribution was first made of fixed percentage bases whereby the total amount was assigned to three general divisions, viz:

Administration, management, legal, financial, and accounting ..	55%
Engineering and operation	30
Advertising	15
Total	100%

Next, the ratio that labor charged to fixed capital bears to total labor charges was determined. One-half of this percentage so found was applied to the amount represented by the 55 percent above and the remainder to fixed capital and the remainder of the 55 percent was charged to general and miscellaneous expense. Next the full ratio as above was applied to the amount represented by the 30 percent above as to the amount which was charged to fixed capital. The remainder was charged to operating expenses. This remainder was further distributed in equal amounts to production, distribution, transmission, and utilization expenses. The 15 percent assigned to advertising was not further divided and was charged to new business expense.

The operating of the plan of distribution described above is shown more graphically in tabular form as follows:

Example of method employed by the Buffalo General Electric Company in apportioning to fixed capital and to various operating expenses the management fees charged by the Buffalo, Niagara & Eastern Power Corporation

Using the month of January 1927 as an example, the detailed method of prorating the monthly charge for management fees to fixed capital and to various expense accounts is as follows:

Gross revenues for the month, \$1,225,551.87 at 5 per cent = \$61,277.60					
Total management fees	Percent				
Administration, management, legal, financial, and accounting	55	33,702.68	100.00	\$33,702.68	
Fixed capital	14.2	\$ 4,785.78			
General and administrative	85.8	28,916.90			
Engineering and operation ..	30	18,383.28	100.0	\$18,383.28	
Fixed capital	28.4	5,220.85			
Operating expense	71.6	13,162.43	Percent		
Production expense			25.0	3,290.60	
Distribution expense			25.0	3,290.61	
Transmission expense			25.0	3,290.61	
Utilization expense			25.0	3,290.61	
Advertising	15	9,191.64	100.0	\$9,191.64	
New Business expense			100.0	9,191.64	
				\$10,006.63	9,191.64
					\$51,270.97

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